

# **Department of Audit**

**2004 Annual Report  
to the  
Tennessee General Assembly**



Comptroller of the Treasury, Authorization No. 307161. This public document was promulgated at a cost of \$4.99 per copy.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

December 15, 2004

The Honorable Phil Bredesen, Governor  
The Honorable John S. Wilder, Speaker of the Senate  
The Honorable Jimmy Naifeh, Speaker of the  
House of Representatives  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

The 2004 annual report of the Department of Audit is submitted herewith in accordance with Section 4-3-304 of *Tennessee Code Annotated*.

The Department of Audit conducts audits or ensures that audits are conducted of state, county, and municipal governments; utility districts; internal school funds; and other local government authorities and agencies. Audits are also performed of state grants to nongovernmental organizations and of numerous federal programs for state and local governments.

In submitting this report, I would like to express my appreciation to all those who made possible the results reported, particularly the members of the General Assembly and the staff of this office.

Respectfully submitted,

John G. Morgan  
Comptroller of the Treasury

JGM/ab



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# **Comptroller of the Treasury**

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**John G. Morgan**  
**Comptroller of the Treasury**

In January 1999, John G. Morgan was elected Comptroller of the Treasury by the Tennessee General Assembly. Born on January 4, 1952, in Nashville, Tennessee, Mr. Morgan graduated from Austin Peay State University in 1974. He did graduate work at Louisiana State University from 1974 to 1976 and entered state government as a research assistant for the Legislative Fiscal Review Committee in 1976.

From 1978 to 1980, Mr. Morgan was a research assistant in the Department of Finance and Administration, and from 1980 to 1982, was an administrative assistant to the State Treasurer. In 1982, he began working in the Office of the Comptroller of the Treasury as Assistant Director of Bond Finance. He served as Director of Bond Finance from 1983 to 1987 and in 1987 also became Assistant to the Comptroller.

In October of 1987, Mr. Morgan left state government and became Vice President, Director of Public Finance, for Third National Bank

in Nashville. In February of 1989, he returned to state government as Executive Assistant to the Comptroller of the Treasury. Mr. Morgan is a former board member of the Tennessee Municipal League Risk Management Pool, Tennessee Municipal Bond Fund, and Nashville Thermal Transfer Corporation. He is married to Donna Morgan, and they have two sons, Brian and Kevin.

## **Comptroller Emeritus**

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**William R. Snodgrass  
Comptroller Emeritus**

After serving as Comptroller of the Treasury from 1955 to 1999, Mr. Snodgrass decided not to seek another term of office. On January 13, 1999, by Joint Resolution of the 101<sup>st</sup> General Assembly, he was named Comptroller Emeritus for his unparalleled contribution to the government and citizens of Tennessee. He continues to serve as a senior policy advisor for the Office of the Comptroller.



## Comptrollers of the Treasury

Daniel Graham	1836-1843
Felix K. Zollicoffer	1843-1849
B.H. Sheppard	1849-1851
Arthur R. Crozier	1851-1855
James C. Luttrell	1855-1857
James T. Dunlap	1857-1861
Joseph S. Foster	1861-1865
S.W. Hatchett	1865-1866
G.W. Blackburn	1866-1870
E.R. Pennebaker	1870-1873
W.W. Hobbs	January to May 1873
John C. Burch	May 1873-1875
James L. Gaines	1875-1881
James N. Nolan	1881-1883
P.P. Pickard	1883-1889
J.W. Allen	1889-1893
James A. Harris	1893-1899
Theo F. King	1899-1904
Frank Dibrell	1904-1913
George P. Woollen	1913-1915
John O. Thomason	1915-1923
Edgar J. Graham	1923-1931
Roy C. Wallace	1931-1937
John W. Britton	1937-1938
Marshall E. Priest	1938-1939
Robert W. Lowe	1939-1945
Jared Maddux	January to April 1945
Sam K. Carson	April 1945-1946
Jared Maddux	1946-1949
Cedric Hunt	1949-1953
Jeanne S. Bodfish	1953-1955
William R. Snodgrass	1955-1999
John G. Morgan	1999-

## **Department of Audit**

### **John G. Morgan**

Comptroller of the Treasury

### **Richard V. Norment, CIA, CGFM**

Assistant to the Comptroller for County Audit

### **Arthur L. Alexander, CGFM**

Director of County Audit

### **Arthur A. Hayes, Jr., CPA, JD, MBA, CFE, CGFM, DABFE, DABFA**

Director of State Audit

### **Dennis F. Dycus, CPA, CFE, CGFM**

Director of Municipal Audit

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## **State of Tennessee**

### **Phil Bredesen**

Governor

### **John S. Wilder**

Speaker of the Senate and Lieutenant Governor

### **Jimmy Naifeh**

Speaker of the House of Representatives

### **Riley Darnell**

Secretary of State

### **John G. Morgan**

Comptroller of the Treasury

### **Dale Sims**

State Treasurer

### **Paul G. Summers**

Attorney General and Reporter

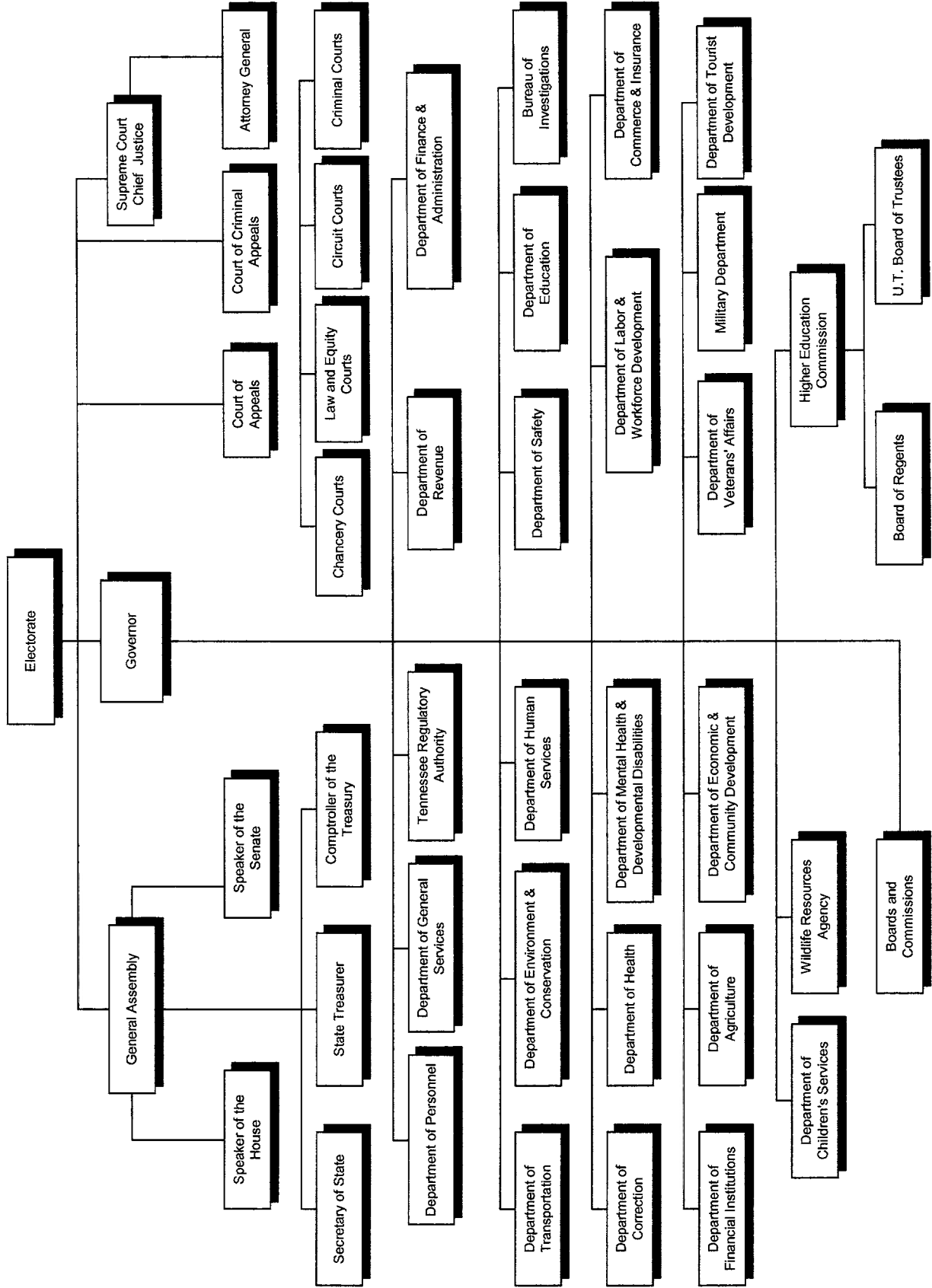
### **Dave Goetz**

Commissioner of Finance and Administration

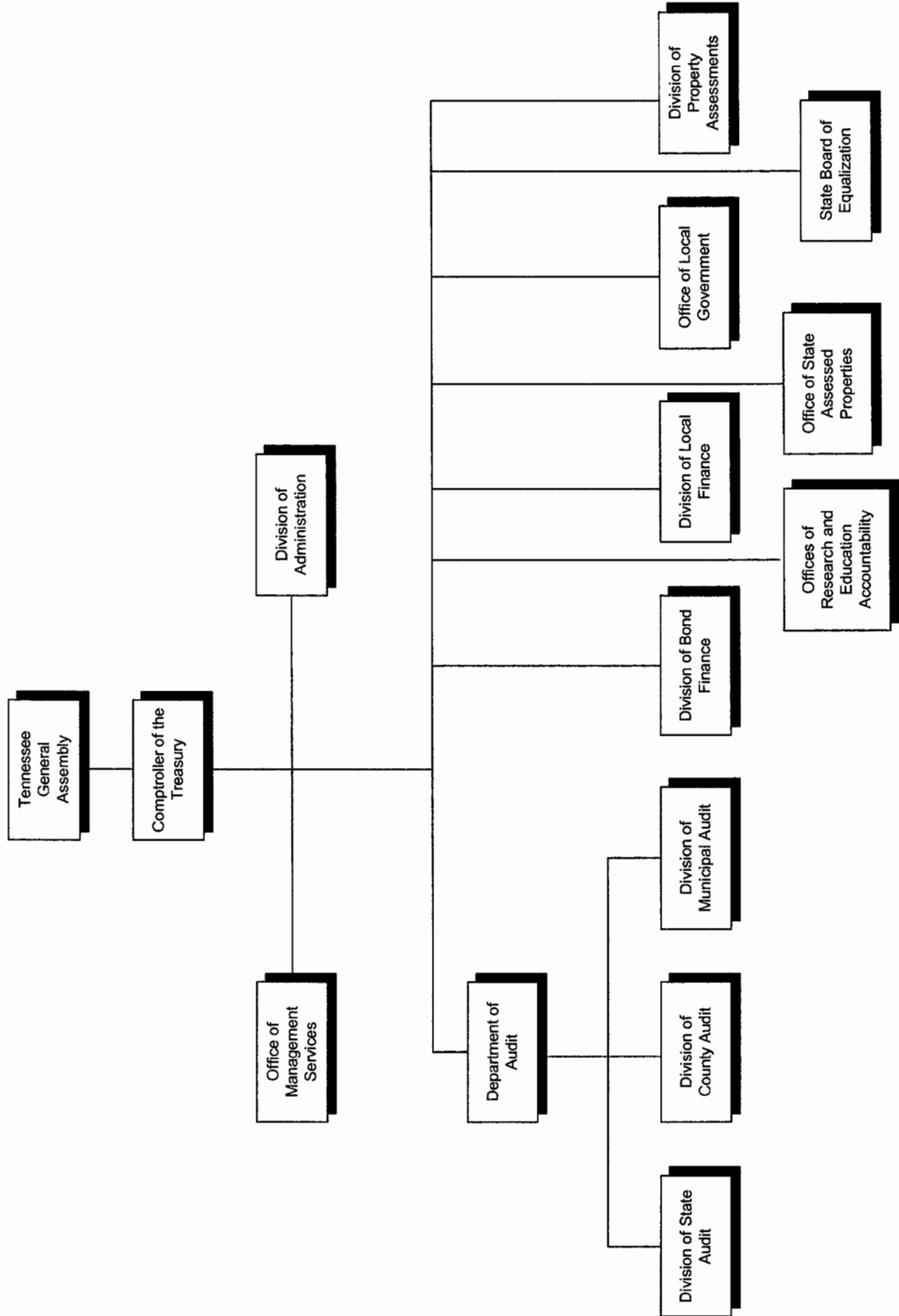
### **Frank F. Drowota**

Chief Justice of the Supreme Court

# State of Tennessee



# Office of the Comptroller of the Treasury



# Office of the Comptroller of the Treasury

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The Comptroller of the Treasury is a constitutional officer elected by the General Assembly for a two-year term. State statutes prescribe the Comptroller's duties; among these duties are the audit of state and local governmental entities and participation in the general financial and administrative management of state government. The Department of Audit performs the audit function for the Comptroller. He also serves *ex officio* as a member of various committees, boards, and authorities.

Advisory Commission on Intergovernmental Relations  
Baccalaureate Education System Trust  
Board of Claims  
Board of Equalization  
Board of Standards  
Building Commission  
Child Care Facilities Corporation  
Competitive Export Corporation  
Consolidated Retirement System Board of Trustees  
Council on Pensions and Insurance  
Emergency Communications Board  
Funding Board  
Governor's Council on Health and Physical Fitness  
Health Services and Development Agency  
Higher Education Commission  
Housing Development Agency  
Information Systems Council  
Library and Archives Management Board  
Local Development Authority  
Local Education Insurance Committee  
Local Government Insurance Committee  
Public Records Commission  
Publications Committee  
School Bond Authority  
Security for Public Deposit Task Force  
Sports Festivals, Inc.  
State Capitol Commission  
State Insurance Committee  
State Trust of Tennessee Board of Directors  
Student Assistance Corporation  
Tuition Guaranty Fund Board  
Utility Management Review Board  
Water/Wastewater Financing Board

In addition to the Department of Audit, the Office of the Comptroller includes nine other divisions.

**Division of Administration**

The Division of Administration provides overall direction, coordination, and supervision to the various divisions within the Comptroller's Office. The division also provides research on particular topics involving state finances and assists various committees and members of the General Assembly in their review of state finances, including review, analysis, and drafting of proposed legislation. In addition, the division represents the office on many boards and commissions in staffing roles and in voting representation.

**Office of Management Services**

The Office of Management Services provides the various divisions of the Comptroller's Office financial, administrative, and technical support and services in the areas of accounting, budgeting, payroll and personnel, information technology, contracting matters, and printing. The office assists the Comptroller in fulfilling his responsibilities involving policies, plans, reports, special projects, and contract review and approval. Personnel of this office also represent the Comptroller as appointed members of various boards, commissions, and committees. The office also provides the Comptroller technical and analytical assistance in support of his responsibilities as a member of certain boards and commissions, such as the State Building Commission, Board of Standards, and Information Technology Council. The office assists in recruiting auditors and accountants for all audit divisions and is responsible for developing the Affirmative Action Plan. The office has lead responsibility for overseeing the continuous improvement projects for the Comptroller's Office.

**Division of Bond Finance**

The Division of Bond Finance is responsible for the issuance and repayment of debt by the State Funding Board, the Tennessee Local Development Authority, and the Tennessee State School Bond Authority and for the issuance of debt by the Bond Finance Committee of the Tennessee Housing Development Agency.

The proceeds of these debt obligations are used to finance general state infrastructure; provide loans to local governments for water and sewer systems, resource recovery, public works projects, airports, and rural fire equipment; provide loans to certain nonprofit corporations for mental health, mental retardation, and alcohol and drug facilities; construct revenue-producing facilities at the state's public higher education facilities; and provide loans to local government units for Qualified Zone Academy Bonds.

The division, jointly with the Department of Environment and Conservation, administers the State Revolving Funds, which provide loans to local governments for sewer works and water works. The division, jointly with the Department of Transportation, administers the Utility Relocation Loan Program, which provides loans to local governments for relocation of utilities required by highway construction.

## **Division of Local Finance**

The Division of Local Finance has certain statutory responsibilities with regard to the financial operations of local governments in Tennessee. The division attempts to provide a continuing and uniform program of assistance and information to local government officials in order to assist them in performing their duties as elected representatives. The division's responsibilities include the following:

- **Local Government Debt Management:** determine that debt proposals and annual budgets for certain cities, counties, utility districts and emergency communication districts are in accordance with statutory requirements.
- **Local Government Resource Management:** determine that official performance bonds for elected and appointed county officers and fiscal officers of school systems and emergency communications districts are in accordance with statutory requirements; determine that certain investment programs for cities, counties, and utility districts are in accordance with statutory requirements.
- **Debt Information Report:** determine that information reports submitted by local governments pertaining to the issuance of debt are in accordance with statutory requirements.
- **Electric System Cable Plans:** determine the feasibility of business plans submitted by local electric systems desiring to provide certain telecommunications services.
- **Interest Rate/Forward Purchase Agreements:** determine that proposals submitted by local governments for interest rate swap agreements and forward purchase agreements are in accordance with guidelines established by the State Funding Board.

## **Office of Local Government**

The Office of Local Government provides information and assistance to local government officials and to the legislature as needed. The office maintains precinct maps, assists local governments with reapportionment and redistricting, and acts as liaison with the Bureau of the Census in preparing for the decennial census. The office also provides assistance to counties involved in the Tennessee Base Mapping Project, and the implementation of the statewide Geographic Information System (GIS).

## **Division of Property Assessments**

The Division of Property Assessments assists local governments in the professional administration of property tax programs and provides data processing services for assessment and tax billing. In accordance with state statutes governing reappraisal, the division monitors county visual inspection and reappraisal programs, provides technical assistance to counties during reappraisal programs, and performs current value updating programs. In addition, the division performs biennial appraisal ratio studies, updates property ownership map originals, develops and conducts educational and training courses for assessment officials, and assists the State Board of

Equalization in maintaining the Assessor Certification Program. The division also administers the Property Tax Relief Program for the low income elderly or disabled homeowner as well as the disabled veterans. The division's mission is to make government work better to improve the quality of life for all Tennesseans by ensuring superior administration of the property tax system.

### **State Board of Equalization**

The State Board of Equalization is a quasi-judicial and policy-making body responsible for the review and equalization of property tax assessments; the promulgation of assessment guidelines, rules, and manuals; and the professional education and training of assessment officials. The board's duties further include hearing and acting on appeals relating to property tax assessments from the Office of State Assessed Properties (public utilities) and the county boards of equalization, reviewing certified tax rates, and reviewing applications for various property tax exemptions.

### **Offices of Research and Education Accountability**

The Office of Education Accountability monitors the performance of Tennessee's elementary and secondary school systems and provides the General Assembly reports on a variety of education topics. The office assists the House and Senate education committees as requested and provides the legislature an independent means to evaluate the effects of increased expenditures in education. The office also serves as a general resource for the General Assembly on national education trends.

The Office of Research conducts research projects on state and local government issues at the request of the Comptroller and the General Assembly. The office also assists the State Funding Board in analyzing the annual economic forecast prepared by the Center for Business and Economic Research. The office assists the Comptroller with preparation of fiscal notes for the Fiscal Review Committee, monitors legislation, and analyzes the budget. The Office of Research has also helped provide general staff support to a number of special legislative committees and commissions.

### **Office of State Assessed Properties**

The Office of State Assessed Properties is responsible for the annual appraisal and assessment of all public utility and transportation properties as prescribed in Section 67-5-1301, *Tennessee Code Annotated*. These assessments are certified to counties, cities, and other taxing jurisdictions for the billing and collection of property taxes. The Office of State Assessed Properties has been given the task of administering the telecommunication ad valorem tax reduction fund. Also, the office audits the companies under the Comptroller's assessment jurisdiction to ensure compliance with the filings on the ad valorem tax reports.



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**Authority for Post-Audit**

The General Assembly created the Department of Audit in 1937. Authority to audit state and county governmental entities is contained primarily in Section 4-3-304, *Tennessee Code Annotated*. The department is required to

perform currently a post-audit of all accounts and financial records of the state government . . . in accordance with generally accepted auditing standards and . . . such procedures as may be established by the comptroller . . .

make annually, and at such other times as the general assembly shall require, a complete report on the post audit . . .

certify to the fund balance sheets, operating and other statements, covering the condition of the state's finances, as prepared by the department of finance and administration, or by the state treasurer, before publication of such statements . . .

serve as a staff agency to the general assembly, or to any of its committees, in making investigations of any phase of the state's finances . . .

make annually an audit of all the records of the several counties of the state . . .

perform economy and efficiency audits, program results audits and program evaluations . . .

require that audits to be performed by the internal audit staffs of grantees or the internal audit staffs of state departments, boards, commissions, institutions, agencies, authorities or other entities of the state shall be coordinated with the office of the comptroller of the treasury and . . . be prepared in accordance with standards established by the comptroller . . .

require that all persons, corporations or other entities who receive grants from or through this state shall cause a timely audit to be performed, in accordance with auditing standards prescribed by the comptroller . . .

Statutory authority to perform limited reviews of state governmental entities, usually called Sunset performance audits, is provided by Section 4-29-101 et seq., *Tennessee Code Annotated*.

All municipalities are required to have annual audits as provided in Section 6-56-105, *Tennessee Code Annotated*. Sections 7-82-401, 9-3-111, and 49-2-112 require that all utility districts, school activity and cafeteria funds, and various municipal enterprises that handle public funds be audited annually.

<b>Audit Standards</b>	Sections 4-3-304 and 6-56-105, <i>Tennessee Code Annotated</i> , give the Comptroller responsibility for ensuring that the audits of counties and municipalities are prepared in accordance with generally accepted government auditing standards and other minimum standards established by the Comptroller.
<b>Audit Follow-up</b>	Section 8-4-109, <i>Tennessee Code Annotated</i> , requires a follow-up of audits of state departments, agencies, and institutions. Audited entities are required to respond to audit findings and recommendations, within six months after the release of the audit report, concerning the effective and efficient management of accounts, books, records, or other evidence of financial transactions. If state entities fail to implement audit recommendations within a reasonable time or fail to provide other reports required by this statute, the Comptroller is required to notify the chairmen of the Senate and House Finance, Ways and Means Committees.

# Department of Audit

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The Department of Audit comprises three divisions—State Audit, County Audit, and Municipal Audit—and employs approximately 300 people. Each division is administered by a director. The three directors are responsible for coordinating the audit function within the department and for addressing concerns and issues in auditing.

The Department of Audit is a post-audit agency. As such, it audits an entity's financial statements; an entity's compliance with applicable statutes, rules, and regulations; and/or its past record of efficiency and effectiveness at the end of a fiscal period.

The basic purpose of post-audits is to identify and report past errors and recommend future improvements. Pre-audits, in contrast to post-audits, are performed within an entity by its own employees to prevent errors, detect problems, and suggest improvements. The most important distinction between pre-audits and post-audits is that post-audits are organizationally independent of the audited entity. In this respect, a post-audit agency in government is comparable to an independent public accounting firm in the private or business sector.

Because independence is so important in a post-audit agency, the Department of Audit is in the legislative branch of state government. The department is accountable to the General Assembly and provides information to assist the legislature in overseeing the use of public funds and the efficient operation of government.

The department's professional staff perform a wide variety of audit work requiring different types of training and experience. Therefore, members of the staff have degrees in fields such as accounting, public administration, information systems, law, political science, criminal justice, education, and nursing. More than 50 of the professional staff have advanced degrees. The department encourages its employees to pursue professional certifications such as Certified Public Accountant, Certified Information Systems Auditor, Certified Fraud Examiner, and Certified Government Financial Manager. As of June 30, 2004, 164 employees of the department had received one or more professional certifications. The appendix identifies those employees who passed a certification exam during the year ended June 30, 2004, and also includes a list of all employees holding professional certifications. This range of experience gives a broad perspective to the department's audit work.

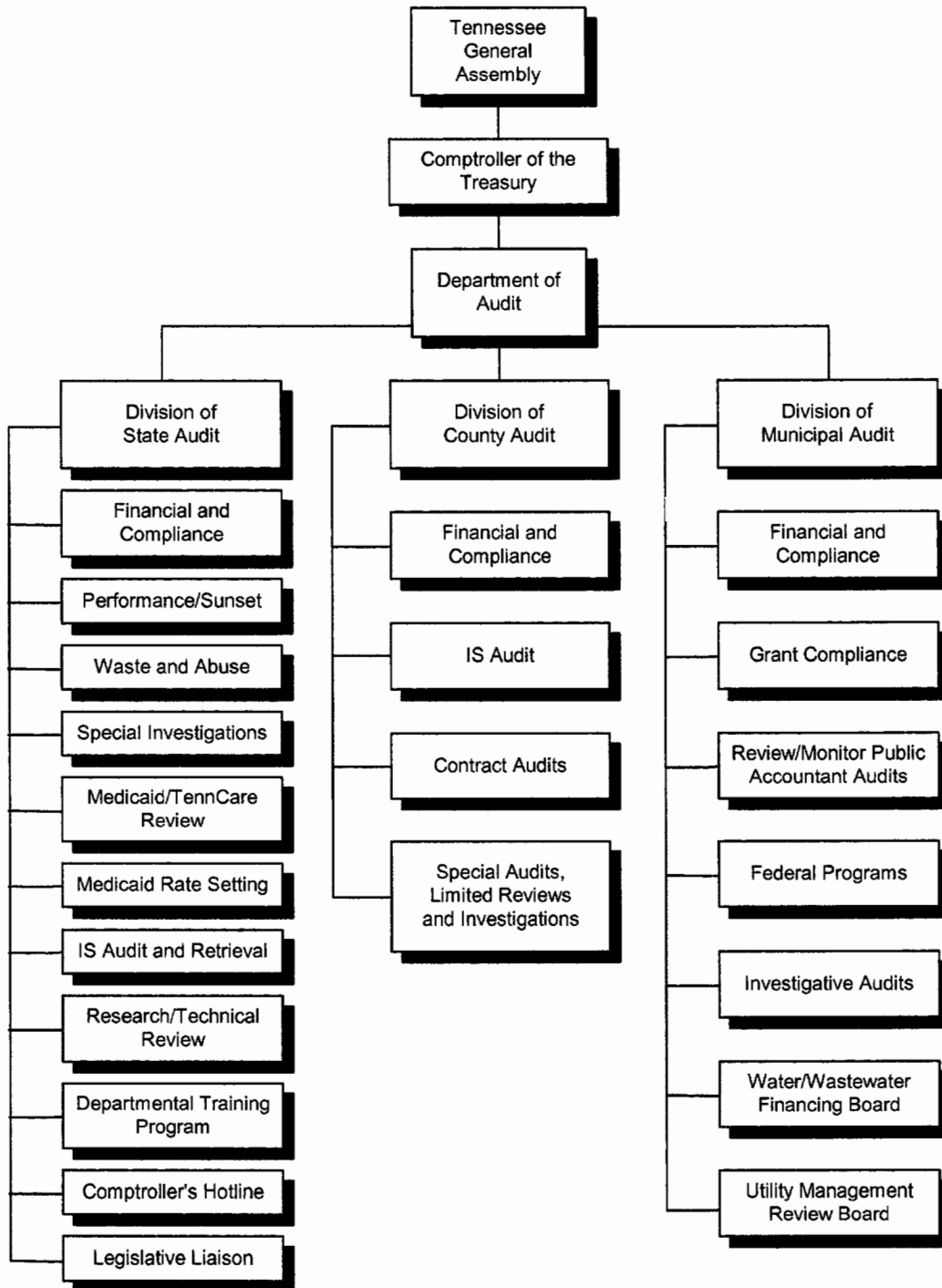
Members of the staff also participate in the following professional organizations:

- American Institute of Certified Public Accountants
- American Society for Public Administration

- Association of Government Accountants
- Information Systems Audit and Control Association
- Government Finance Officers Association
- Institute of Internal Auditors
- Association of Certified Fraud Examiners
- Tennessee Government Finance Officers Association
- Tennessee Society of Certified Public Accountants
- National Association of State Auditors, Comptrollers and Treasurers

Participation includes attending and contributing to annual meetings, serving as officers, and sitting on committees and project task forces.

## Department of Audit





# Improving the Audit Process

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The Comptroller of the Treasury and the Department of Audit strive to preserve the integrity and improve the quality and usefulness of the audits of governmental entities and grant recipients at all levels. To accomplish this goal, the department works closely with state and national organizations and professional associations concerned with governmental accounting, auditing, and financial reporting.

Richard V. Norment, Assistant to the Comptroller for County Audit, is a past national president of the Association of Government Accountants (AGA) and is a member of the National Board of Directors. Mr. Norment is a member of the Government Finance Officers Association's (GFOA's) Special Review Committee for the Certificate of Achievement for Excellence in Financial Reporting program and is a member of the Executive Committee and the Program Committee of the Southeastern Intergovernmental Audit Forum, and Chair of the AGA Name Change Focus Group. In addition, Mr. Norment is a member of the National Intergovernmental Audit Forum Strategic Planning Task Force.

Arthur L. Alexander, Director of the Division of County Audit, is a member of the Government Finance Officers Association and the Association of Government Accountants (AGA), and has served as president of the Nashville AGA chapter and as regional AGA Vice President.

Arthur A. Hayes, Jr., Director, Division of State Audit, is the past chair of the National State Auditors Association's Human Resources Committee and the Audit Standards and Reporting Committee. He is a member of the Program Committee of the Southeastern Intergovernmental Audit Forum. In addition, Mr. Hayes is a member of the Professional Advisory Council of the School of Business, Tennessee State University, and a former member of the Executive Board of the Government Finance Officers Association of the United States and Canada (GFOA). Both a certified public accountant and a licensed attorney, Mr. Hayes is a member of the Association of Government Accountants, the American Board of Forensic Examiners, the American Board of Forensic Accountants, and the Association of Certified Fraud Examiners. He has authored numerous articles for auditing and accounting publications.

Dennis F. Dycus, Director, Division of Municipal Audit, serves as a Regent Emeritus of the Board of Regents of the Association of Certified Fraud Examiners, a faculty instructor for the association on a national basis, and is the immediate past president of the Middle Tennessee Chapter. Mr. Dycus was the recipient of the association's Distinguished Service Award for his contribution to the detection and prevention of fraud. He was one of the first three members of the association to be designated as an Association Fellow in recognition of his "outstanding achievements in and significant contributions and

exceptional service to the field of fraud examination.” Mr. Dycus presently serves as a member of both the Accounting Advisory Council for the Gordon Ford College of Business at his alma mater, Western Kentucky University, and Middle Tennessee State University. He is also active as a member of the Tennessee Society of Certified Public Accountants and in 2003 was the recipient of the Outstanding CPA in Government Award and in 2004 was presented with the Association of Certified Fraud Examiners’ “Outstanding Government Award.” In addition, Mr. Dycus was recently elected as a member to the association’s newly formed Not-for-Profit Board of Directors. He has authored articles related to fraud for national publications.

Other staff serve in the following national organizations:

- National State Auditors Association  
Performance Audit Committee—Deborah Loveless, Division of State Audit  
Quality Control Review Committee—Deborah Loveless  
Single Audit Committee—Gerry Boaz, Division of State Audit  
Electronic Government Committee—Dan Willis, Division of State Audit  
Auditor Training Committee—Dan Willis  
Audit Standards and Reporting Committee—Gerry Boaz
- Government Finance Officers Association  
Special Review Committee—Gerry Boaz  
Committee on Accounting, Auditing and Financial Reporting—Gerry Boaz
- Association of Government Accountants  
Senior Vice President—Deborah Loveless  
Website Committee—Dan Willis

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### **Accounting and Financial Reporting Standards**

The Governmental Accounting Standards Board (GASB) has been the authoritative accounting and financial reporting standard-setting body for state and local governmental entities since June 1984. The Division of State Audit’s technical analyst attends the board’s meetings as an observer and writes and distributes a report to members of the National Association of State Auditors, Comptrollers, and Treasurers.

Like its commercial-sector counterpart, the Financial Accounting Standards Board, the GASB operates under the auspices of the Financial Accounting Foundation and is located in Norwalk, Connecticut. As of June 30, the GASB had issued 45 authoritative standards, 2 concept statements, 6 interpretations, and 11 technical bulletins, as well as several exposure documents from which standards are developed.

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### **Generally Accepted Government Auditing Standards**

The Department of Audit performs its audits in accordance with government auditing standards generally accepted in the United States of America as set forth by the Comptroller General of the United States in *Government Auditing Standards* (Yellow Book).



These standards apply to financial and performance audits and attestation engagements. The Yellow Book incorporates the generally accepted auditing standards for field work and reporting and attestation standards set forth by the American Institute of Certified Public Accountants.

The Department of Audit conducts its single audit in accordance with the Single Audit Act as amended by the 1996 Single Audit Act amendments and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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## Quality Control Review

The department internally monitors the quality of audit work through its Quality Control Review Committee, composed of senior staff from each of the department's three divisions. The quality control review consists of three phases:

- Review of policies and procedures
- Review of compliance with professional standards and departmental policies and procedures
- Review of compliance with *Working Paper Techniques*

The Quality Control Committee conducts a review of the department's policies and procedures biennially. An Audit Review Subcommittee is appointed biennially to review audits to determine whether the department has complied with professional standards and departmental policies and procedures. This Audit Review Subcommittee consists of audit managers and senior auditors who serve on a rotating basis. This review is similar to the external quality control review program used by the National State Auditors Association. Quarterly, the Quality Control Committee appoints a Working Paper Review Subcommittee. This committee consists of senior auditors who serve on the committee on a rotating basis to review the department's compliance with *Working Paper Techniques*. The results of the committee's reviews are communicated to all managerial personnel in the department.

In addition to the Quality Control Review Committee, each division has an established process whereby each audit is reviewed prior to release for adherence to the standards. The department also undergoes an external review of its quality control system. Section 8-4-102, *Tennessee Code Annotated*, states:

Previous to the convening of each biennial general assembly, the speaker of the senate and the speaker of the house jointly may contract for the services of an independent public accounting firm to audit or review the operations of the office of the comptroller, or may call upon the director of the division of state audit to

review with them a current audit of the comptroller of the treasury. The speakers may appoint a committee of the general assembly for the purpose of such review.

The Speakers directed the Department of Audit to undergo a quality assessment review under the auspices of the National State Auditors Association. The most recent review was performed in August 2004 by certified public accountants and other professionals holding executive-level posts in federal and state governments. The purpose of the review was to ensure that the department is meeting its responsibility to perform audit work in accordance with government auditing standards generally accepted in the United States of America.

The report of the quality assessment review for the year ended June 30, 2004, rendered an unqualified opinion on the department's system of quality control. In the opinion of the quality assessment team, "the system of quality control of the State of Tennessee Comptroller of the Treasury, Department of Audit in effect for the period of July 1, 2003, through June 30, 2004, has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards." The next quality assessment review is scheduled for August 2006.

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## **Training**

The Department of Audit ensures its auditors receive the required continuing professional education to meet certification standards and *Government Auditing Standards*. Auditors participate in the department's in-house training program as course developers, presenters, and participants. Volunteer instructors from throughout the department present some 30 courses in the department's in-house program. These courses range from "Auditing for Fraud" to "Computer Forensics" to "Audit Command Language."

The department's commitment to training extends to auditors and accountants throughout state government. Therefore, many of the in-house classes are open to other agencies, and one or more seminars open to state accounting and auditing personnel are held each year.

All training is offered with the assistance of the Department of Audit Advisory Committee on Training, whose members represent all divisions and sections of the department. The 14 members are volunteers who work to improve the training program by surveying the staff's training needs, suggesting new classes, recommending ways to improve existing classes, and upgrading program administration. The training coordinator chairs the committee.

For the twenty-third year, the Department of Audit and the National Association of State Auditors, Comptrollers, and Treasurers cosponsored the annual Governmental Auditor Training Seminars for public accounting firms performing governmental audits in Tennessee. The seminars were held in Chattanooga, Jackson, Morristown, and Nashville.

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**Local Representation in Professional Organizations**

The Department of Audit fully supports its staff's active participation in local professional organizations, recognizing that these organizations contribute to the staff's continued growth.

The department plays a significant role in the activities of the Nashville Chapter of the Association of Government Accountants. Department of Audit staff hold the following offices:

**County Audit**

Jim Arnette	Southeast Regional Vice-President-Elect
Penny Austin	Secretary
Kevin Huffman	Executive Committee; Co-Chair, Meetings and Attendance Committee

**State Audit**

Gerry Boaz	Chair, Certified Government Financial Management Committee; Southeast Region CGFM Coordinator
Nichole Curtiss	Chair, Newsletter Committee
Tammy Farley	Chair, Community Service Committee
Beth Pendergrass	Co-Chair, Membership Committee
Tammy Thompson	Chair, Meetings and Attendance Committee
Dan Willis	Chair, Internet Committee

In addition to holding top offices, department staff are well represented in the Nashville chapter's organization, serving on almost every committee.

Staff from the Department of Audit are also active in the Middle Tennessee Chapter of the Association of Certified Fraud Examiners. Several staff of the Division of State Audit hold offices: Brent Rumbley is vice president of the chapter, Will Hancock is treasurer, Beth Pendergrass is secretary, and Hellens Kruszynski is a board member and training director. Lewis Robbins of the Division of Municipal Audit is chair of the Website Committee.

Deborah Loveless, Division of State Audit, is a director of the Tennessee Chapter of the American Society for Public Administration.

Will Hancock is sponsorship director for the Middle Tennessee Chapter of the Information Systems Security Association (ISSA).

Beth Pendergrass is secretary of the Middle Tennessee Chapter of the Information Systems Audit and Control Association (ISACA).



## Division of State Audit

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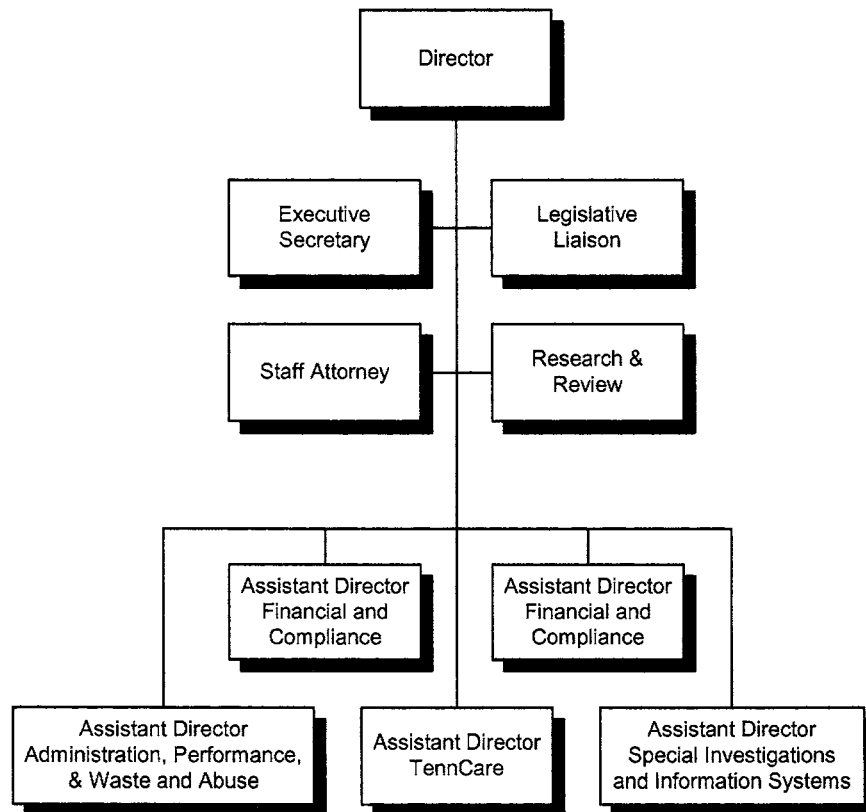
**Arthur A. Hayes, Jr., CPA, JD, MBA, CFE, CGFM, DABFE, DABFA  
Director**

The Division of State Audit conducts financial and compliance audits, performance audits, and investigations. It also performs special studies to provide the General Assembly, the Governor, and the citizens of Tennessee with objective information about the state's financial condition and the performance of the state's many agencies and programs. This division thus aids the legislature in ensuring that state government is accountable to the citizens of Tennessee. In fulfilling this audit function, the division issued 90 reports during the year ended June 30, 2004; an additional 130 audits and special investigations were in progress at June 30, 2004.

This division includes six sections: financial and compliance, TennCare, performance, waste and abuse, special investigations, and information systems. Highlights of the work each section performed from July 1, 2003, through June 30, 2004, are presented in this chapter. Complete reports are available upon request or on the Internet at [www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).

In addition to auditing, the division reviews and comments on exposure drafts from professional organizations and conducts technical research and training. The division also assists the Comptroller in the formulation of state policy and regulations, either directly by consulting with representatives of state agencies or indirectly by submitting comments about proposed policies and procedures.

## Division of State Audit



## Financial and Compliance

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**Charles K. Bridges, CPA, CGFM**  
**Assistant Director**



**Edward Burr, CPA, CGFM**  
**Assistant Director**

This section conducts financial and compliance audits of all state departments, agencies, and institutions.

A major endeavor of the financial and compliance section was the *Single Audit of the State of Tennessee* for the year ended June 30, 2003. This audit covered the operations of the state as a whole and was conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. A significant part of this project was the audit of the *Tennessee Comprehensive Annual Financial Report*, which covers all the state's funds, account groups, and component units, including colleges and universities.

In addition to the single audit report, separate audit reports were issued on the Department of the Treasury, the Office of the Comptroller of the Treasury, departments administering major federal programs, and units of the government not subject to the control of the centralized accounting system: state universities, community services agencies, the Tennessee State School Bond Authority, the Tennessee Local Development Authority, the Tennessee State Veterans' Homes Board, and the Tennessee Housing Development Agency. The smaller departments and agencies of the government and the community colleges are audited on a biennial cycle.

The separate audits of the departments, agencies, and institutions are not meant to serve as organization-wide audits as described in the Single Audit Act as amended in 1996 and Office of Management and

Budget Circular A-133. They do, however, serve as segments of the organization-wide audit of the State of Tennessee; therefore, they include the necessary tests for compliance with applicable laws, regulations, contracts, and grant agreements and the required consideration of the internal control.

All financial and compliance audits are conducted in accordance with government auditing standards generally accepted in the United States of America. The section performs the following general procedures as part of the financial and compliance audit process:

- Reviews the working papers from previous audits and applicable regulations, rules, policies, procedures, laws, and legal opinions.
- Considers the internal control at the entity, including a review of information systems, and determines the nature, timing, and extent of tests to be performed.
- Reviews the original budget and subsequent budget revisions and compares them to actual revenues and expenditures.
- Obtains and analyzes explanations for significant variances.
- Reviews the internal control in the computerized accounting and management information systems.
- Tests to determine the appropriateness of expenditures and the entity's accountability for revenues and cash receipts.
- Tests to substantiate assets, liabilities, and fund balances.
- Reviews federal and state grants to determine the entity's accountability for grant funds and compliance with applicable laws, rules, and regulations.
- Reviews management's representations regarding financial transactions, supporting accounting data, and other disclosure items.
- Evaluates all evidence obtained during the audit process in order to formulate an opinion on the financial transactions and to prepare findings on significant problems.

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**Results of Audits**

During the year ended June 30, 2004, the division published 65 financial and compliance audit reports containing 150 audit findings and issued opinions on 53 sets of financial statements. On June 30, another 47 audits were in progress. The following are summaries of some of the published audit reports.\*

\*Findings repeated from prior audits are marked with an asterisk.



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**Single Audit of the State of Tennessee**

The Single Audit of the State of Tennessee for the year ended June 30, 2003, was conducted in accordance with Office of Management and Budget (OMB) Circular A-133. The *Single Audit Report* reflected federal awards of over \$9 billion. The results of the audit of compliance of the State of Tennessee with the compliance requirements applicable to each of the state's major federal programs indicated that the State of Tennessee did not comply with requirements regarding Activities Allowed or Unallowed, and Allowable Costs/Cost Principles that are applicable to its Medicaid Cluster.

Noncompliance with the aforementioned requirements applicable to the Medicaid Cluster was also considered to be material to the general-purpose financial statements of the State of Tennessee. The results of auditing procedures also disclosed other instances of noncompliance with compliance requirements applicable to major federal programs that are required to be reported in accordance with OMB Circular A-133.

As a result of testing the state's compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs, costs of \$3,154,559 were questioned for the year ended June 30, 2003.

The consideration of internal control for the State of Tennessee disclosed numerous reportable conditions, including several that were considered to be material weaknesses in relation to the state's general-purpose financial statements and/or major federal programs.

The single audit included an audit of the state's general-purpose financial statements. This audit resulted in an unqualified opinion on the general-purpose financial statements of the State of Tennessee for the year ended June 30, 2003. The audit also determined that the Schedule of Expenditures of Federal Awards was fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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**State Departments and Agencies**

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**Department of Agriculture**  
June 2004

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**Controls Over Cash Receipting and Licensing Need Improvement\***

The department's controls over the cash receipting and licensing procedures in the Animal Health, Pesticides, Food and Dairy, and Plant Certification divisions need improvement.

**The Department Did Not Fully Comply With State Policy on Providing Housing to Employees**

The department has employees working at state forests, work centers, and fire towers around the state who live in state-owned housing. However, the department has not fully complied with F&A Policy 16 on employee housing and meals.

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**Department of Children's Services**  
For the Year Ended June 30, 2003

**Management Has Again Failed to Implement Promised Corrective Action and, as Noted in the Previous Nine Audits, Children's Services Has Not Collected Overpayments**

Uncollected overpayments totaling at least \$1,121,992 are due from foster care and adoption assistance parents.

**Guidelines for the Foster Care Program Were Not Followed\***

The department charged the Title IV-E program for children not eligible for Title IV-E reimbursement, had no documentation of criminal background checks of foster parents, and appeared to place children with individuals unfit to be foster parents. Federal questioned costs for the cases sampled totaled \$98,899.

**Foster Care Case Files Lacked Proper Documentation\***

Case files did not contain adequate documentation of case manager compliance with departmental policies regarding contacts, timeliness of case recordings, and permanency plans for foster children. This finding was noted in the four previous audits.

**Adoption Assistance Did Not Contain Adequate Documentation\***

Adoption Assistance files did not contain adequate documentation to support the adoption assistance subsidies paid to adoptive parents. The total costs questioned for the cases sampled were \$65,521. The federal share of those costs was \$41,565.

**For the Seventh Consecutive Year, the Department Inappropriately Billed TennCare**

Children's Services inappropriately requested and received reimbursement from TennCare for children not eligible for TennCare services. Inappropriate reimbursements were for incarcerated youth, children not in state custody, children on runaway status, and hospitalized children. Total overpayments were \$1,742,440.

**The Department Committed Funds Without Approval**

Since July 1, 2003, the Department of Children's Services has committed state and federal TennCare funds before it had a contract with the Bureau of TennCare to provide services.

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**Department of Correction**  
For the Period July 1, 2000,  
Through March 31, 2003

**Policies, Procedures, and Operating Controls for TOMIS Are Inadequate\***

The department has not implemented adequate operating controls to protect the integrity of the Tennessee Offender Management Information System (TOMIS) data and limit the opportunities for fraud, sabotage, or inappropriate disclosures.

**Ineffective Controls Over Inmate Trust Fund Account**

Central office accounting duties for the Inmate Trust Fund are not segregated or adequately monitored.

### **Disaster Recovery Plan Insufficient**

The disaster recovery plan lacks the specific instructions necessary to restore TOMIS in an emergency.

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### **Court System**

For the Period July 1, 2000,  
Through February 28, 2003

### **The Indigent Defense Daily Report System Is Ineffective in Key Areas\***

The Indigent Defense Daily Report System does not appear to reliably record, accumulate, and calculate billing information from attorneys.

### **Internal Control Over Indigent Defense Payments Does Not Ensure Compliance With Policies and Procedures**

The Administrative Office of the Courts does not have effective internal control to ensure compliance with Rule 13, *Tennessee Court Rules*, which prescribes policies and procedures over payments to attorneys who represent indigent defendants. In addition, the controls in place do not prevent duplicate payments.

### **Internal Control Over Equipment Needs Improvement**

Equipment items were missing, and the location and tag numbers of items did not agree to the property listing.

### **ISSUE FOR LEGISLATIVE CONSIDERATION**

### **County Funding of Certain State Judges' Offices and the Provision of Salary Supplements to Certain Employees**

Currently, county governments provide varying levels of support to state judges; some counties make no provision for the operation of the judges' offices while others provide office space, office supplies, utilities, and reimbursement of certain travel expenses. In addition, some county governments provide salary supplements to individuals employed in certain judges' offices. These salary supplements are paid through the county's payroll system, and these employees receive varying levels of county benefits. Some employees have been allowed to participate in county insurance and retirement plans, while others have not.

The presence of both state and county funding sources increases the risk that the same expense item could be submitted for reimbursement to more than one funding source, whether intentionally or as a result of errors. The officials responsible for approving payments at the state and county levels do not have a mechanism to determine what expenses have also been paid by another funding source. The General Assembly should consider requiring any county funding of the state judges' offices, except for office space provided in county-owned facilities, to be remitted to the state and then paid through the state system.

A similar situation involving a district attorney general's office and county-funded credit cards previously resulted in abuse of public funds.

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**Department of  
Economic and Community  
Development**

For the Period July 1, 2000,  
Through March 31, 2003

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**The Department Circumvented the Approval Process for  
\$2,845,000 TIIP Project**

The department did not obtain approval from the State Funding Board for a Tennessee Industrial Infrastructure Program (TIIP) project exceeding \$750,000. The department awarded four separate contracts on March 11, 2002, to the Town of Smyrna for infrastructure improvements related to the expansion of a local plant. Four contracts were for the same infrastructure project totaling \$2,845,000.

**Tennessee Job Skill Grant Award Procedures Were Not Followed**

The department awarded job skills grant funds to several large companies without obtaining applications as required by state law. Twenty-five of 26 grant contract files reviewed (96%) did not have an application.

**The Department Circumvented Internal Controls Over  
Disbursements**

The department circumvented controls, which resulted in insufficient approvals, lack of supporting documentation, improper accounting, and late payments.

**The Department Concealed Transactions Through a Nashville  
Area Chamber of Commerce Bank Account**

The department circumvented internal controls, violated state law, and concealed questionable transactions, including expenditures of \$2,300 for luggage, \$17,523 for sport shirts, and \$748 to department employees for expenses.

**Two Sole-Source Contracts Performed the Same Service  
Simultaneously**

The department had two sole-source contracts performing the same service. By circumventing state contract procedures, the department paid two service providers for the same service during a seven-month period at a total cost of \$70,000.

**The Department Did Not Comply With F&A's Policy 22,  
Subrecipient Monitoring**

The department did not identify and report its subrecipients to the Department of Finance and Administration in the form of an annual monitoring plan as required by F&A Policy 22.

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**Department of Education**  
For the Year Ended June 30, 2003

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**The Department Did Not Adequately Document Its Monitoring of  
Subrecipient Activities Related to the Vocational Education  
Program**

Management did not have a tracking system for ensuring that all portions of the evaluation instrument were completed and that improvement plans were received.

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**Department of Finance  
and Administration**

For the Year Ended June 30, 2003

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**The Division of Capital Projects and Real Property Management  
Has Not Implemented Effective Control and an Effective Review  
System\***

The Division of Capital Projects and Real Property Management has failed to implement effective control and an effective review system of land transactions entered on the Land Inventory System (LIS). As a result, land was not always properly valued. The LIS is also used by the Division of Accounts to record values for buildings; however, it was noted during the current audit that two buildings that no longer exist were still reported on the state's financial statements.

**The Office for Information Resources Lacks Proper Controls**

The Department of Finance and Administration's Office for Information Resources has not implemented adequate controls over two areas. Failure to provide such controls increases the risk that unauthorized individuals could access sensitive state systems and information.

**TennCare Has Serious Administrative and Programmatic  
Deficiencies\***

Top management needs to continue to address the TennCare program's numerous and serious administrative and programmatic deficiencies. The audit revealed many serious internal control deficiencies that have caused or exacerbated many of the TennCare program's problems. This finding was noted in the previous four audits.

**TennCare Contracts Were Not Approved Before the Contract  
Period Began\***

For the third consecutive year, TennCare did not approve contracts before the beginning of the contract period. Our testwork revealed that 23 contracts or amendments to contracts were signed after the contract period began. These contracts were approved from 7 days to 345 days after the effective date of the contract with an average of 85 days after the beginning of the contract period.

**TennCare Rules Did Not Reflect Current Operating Procedures\***

As noted in the previous seven audits, TennCare did not revise its own rules related to home and community based services to reflect current operating procedures.

**TennCare Does Not Redetermine Eligibility of Ineligible SSI  
Enrollees\***

Because TennCare does not have a court-approved plan, TennCare does not redetermine or terminate the TennCare eligibility of Supplemental Security Income (SSI) enrollees that become ineligible for SSI. As a result, TennCare does not terminate SSI recipients unless the recipient dies, moves out of state and is receiving Medicaid in another state, or requests in writing to be disenrolled. This finding was noted in the three previous audits.

**Internal Control Over TennCare Eligibility Is Weak\***

Since 1995, there have been weaknesses in internal control over TennCare eligibility. The current audit noted that TennCare paid for individuals with invalid social security numbers, paid for ineligible enrollees, and did not reverify the eligibility of all enrollees.

**TennCare's Administrative Appeals Process Needs Improvement**

TennCare has incurred approximately \$1.7 million in extra costs for 7,861 active unresolved appeals to provide interim coverage past the 90-day period permitted by federal regulations in resolving appeals.

**TennCare Paid Claims for Full-Time State Employees\***

For the fourth consecutive year, TennCare made payments on behalf of full-time state employees, resulting in new federal questioned costs of \$11,801 and an additional cost to the state of \$6,856. Using computer-assisted audit techniques to search TennCare's paid claim records, we found that TennCare staff did not terminate 38 ineligible enrollees until after we questioned management concerning why the enrollees were still on TennCare.

**TennCare Paid for Services That Were Unallowable or Not Performed\***

TennCare incorrectly reimbursed managed care organizations, behavioral health organizations, Consultec, and the Department of Children's Services for services that were unallowable or not performed, resulting in federal questioned costs totaling \$486,870. Also, TennCare still does not have written procedures to address the repeated Children's Services issues and did not comply with utilization of care and suspected fraud requirements. This finding was noted in the four previous audits.

**TennCare Incorrectly Reimbursed the Department of Children's Services\***

Although services should have been covered and provided by the behavioral health organizations, TennCare incorrectly reimbursed the Department of Children's Services \$1,208,292 for services for children who were not in the state's custody, resulting in federal questioned costs of \$786,486. This finding was noted in the four previous audits.

**TennCare Paid the Department of Children's Services and the BHOs for the Same Dates of Service**

TennCare could not explain paying the Department of Children's Services and the behavioral health organizations for services for children on the same dates of service. Using computer-assisted auditing techniques, the auditors performed a data match comparing data supporting TennCare's payments to Children's Services to encounter payment data from the BHOs to identify cases in which there were two or more overlapping dates of service. The results of the data match showed that TennCare paid \$50,246 to Children's

Services for children who were in a Level 3 or Level 4 behavioral health facility and that TennCare also paid \$20,751 to the BHOs for behavioral health services for the same children on the same dates of service for the year ended June 30, 2003.

**TennCare Has Not Provided Timely Assurances and Does Not Have Sufficient Monitoring Staff\***

As noted in the prior four audits, the Bureau of TennCare has not provided timely assurances regarding fulfillment of TennCare's contractual responsibilities for the Medicaid Home and Community Based Services Waivers under Section 1915(c) of the Social Security Act. Additionally, TennCare still does not have sufficient staff to perform monitoring responsibilities.

**TennCare Has Not Processed Certain Claims on an Approved Medicaid Management Information System and Has Paid the Division of Mental Retardation Services (DMRS) Amounts Different Than the Amounts DMRS Paid Providers\***

As noted since 1999, TennCare is still violating the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled in the way claims are paid for services provided to the mentally retarded and developmentally disabled. Testwork revealed that TennCare has continued to inappropriately pay the Division of Mental Retardation Services (DMRS) as a Medicaid provider. DMRS in turn has continued to treat the actual Medicaid service providers as DMRS vendors. TennCare has not paid DMRS the same amounts DMRS has paid the providers.

**TennCare Does Not Recover Funds Recouped From Providers and Does Not Collect All Patient Liabilities**

TennCare does not have a process to recover funds that the Division of Mental Retardation Services (DMRS) recouped from providers. Also, TennCare does not collect all patient liabilities for enrollees in the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled. This has caused TennCare to pay more for services than necessary.

**TennCare Did Not Have Adequate Processes to Approve Eligibility and Payments\***

Since 1999, TennCare has failed to ensure that adequate processes are in place for approval of recipient eligibility and for the review and payment of services under the Medicaid Home and Community Based Services Waivers. Eighty-nine percent of the 120 claims examined contained deficiencies, resulting in \$29,025 in questionable expenditures. In spite of our prior findings, DMRS continued to allow providers to render services to recipients before proper eligibility preadmission evaluations were performed and documented and before services were reviewed and authorized.

**TennCare Did Not Properly Record Payments and Overclaimed Federal Financial Participation**

TennCare did not properly record payments to Premier Behavioral Systems of Tennessee and subsequently claimed too much federal financial participation, resulting in questioned costs totaling \$633,702. Testwork revealed that TennCare fiscal staff incorrectly coded administrative fee payments totaling \$4,486,047 made to Premier as medical assistance payments for the months of February, March, and April 2003. As a result, TennCare claimed \$657,293 too much from the federal government in matching funds. In addition, testwork revealed that during the months of May and June 2003, TennCare incorrectly recorded monthly medical assistance payments totaling \$134,500 as administrative fees, resulting in TennCare failing to claim \$23,591 in federal financial participation available at the higher medical assistance rate.

**As Noted in the Prior Audit, TennCare's Monitoring of Payments to MCOs for Services and Payments for Dental Claims Needs Improvement**

Testwork revealed that TennCare had not adequately monitored six of the ten MCOs and Doral Dental to identify duplicate paid claims, ineligible recipients receiving benefits, MCOs and/or Doral Dental not reimbursing providers the same amounts received from TennCare, and/or incorrect amounts being paid to providers.

**TennCare Did Not Recover Payments Made for Deceased Enrollees\***

For the fourth consecutive year, TennCare did not recover fee-for-service payments paid for deceased enrollees. This has resulted in new federal questioned costs of \$507,997 and additional costs to the state of \$274,078. As stated in the three previous audits, TennCare has made, and failed to recover, payments for health services for enrollees that records indicate are deceased.

**TennCare Could Not Substantiate the Medical Necessity of Services\***

Because neither TennCare nor a nursing home provider maintained a pre-admission evaluation for a Medicaid enrollee, TennCare could not provide the necessary documentation to substantiate the medical necessity of services provided to the enrollee.

**TennCare Providers Could Not Prove That Services Were Provided or Were Necessary\***

TennCare's providers could not provide evidence that the services provided on a fee-for-service basis were actually provided or medically necessary. Testwork revealed that TennCare's providers could not provide documentation, or the documentation that was provided was inadequate to support that services were actually provided for 6 of 94 claims (7%) paid by TennCare or paid by TennCare through reimbursement of one of TennCare's Managed Care Organizations.



**TennCare Paid Duplicate Claims to Skilled Nursing Facilities\***

TennCare staff did not have adequate reasons for overriding timely filing edits, did not pay providers in a timely manner, and overrode system edits in TCMIS, which resulted in TennCare's payment of duplicate claims to skilled nursing facilities. We determined that for 8 (\$6,929) of 60 (\$34,494) claims tested (13%), TennCare did not have adequate reasons for either paying the claim late or paying a claim not submitted timely. We also discovered duplicate claims totaling \$16,269.

**TennCare Did Not Follow Its Internal Control Procedures for the Financial Change Request Process**

There was inadequate evidence that personnel in TennCare's Fiscal Budget Division had reviewed and approved changes made in the TennCare Management Information System (TCMIS) resulting from financial change requests (FCRs). FCRs are forms that must be completed to make a financial change within TCMIS.

**TennCare Did Not Follow the Procurement Process for Services**

The Bureau of TennCare did not follow the required procurement process when it obtained telephone answering services for \$601,406 and instructed a vendor to submit invoices in amounts that would circumvent contract and bid requirements. TennCare did not have adequate documentation of the services performed by the telephone answering company. According to the telephone answering company's management, TennCare instructed them not to bill for more than \$400 per invoice. As a result, TennCare was able to purchase the services without obtaining competitive bids. Auditors reviewed numerous invoices for amounts just under the \$400 threshold.

**TennCare's Procedures for Delegated Purchase Authority Need Improvement\***

As noted in the previous two audits, TennCare's delegated purchase authority procedures need improvement. Testwork revealed that in the case of 17 of the 38 billings (45%), there was a DPA vendor that worked at least six hours in a day but did not take a lunch. A review of the sample items revealed that some vendor employees deducted hours taken for lunch while others did not report any lunch taken, but TennCare still paid.

**TennCare's Compliance With Special Terms and Conditions Still Needs Improvement\***

As noted since 1999, the Bureau's compliance with special terms and conditions of the TennCare program still needs improvement. Testwork revealed instances of noncompliance for 1 of 20 applicable Special Terms and Conditions plus noncompliance with a portion of one of the attachments. Questionable practices were basing federal draws on estimates rather than actual expenditures for certain enrollees and not maintaining an adequate Medicaid Management Information System.

**Provider Agreements Did Not Comply With Federal and Departmental Requirements\***

For the fifth consecutive year, not all provider agreements for TennCare services complied with federal requirements and departmental rules. The current audit again revealed that Children's Services provider agreements did not contain information pertaining to ownership and control and access to records. In addition, we noted that dental provider agreements did not require providers to certify that they were not suspended or debarred.

**The TennCare Management Information System Lacks the Necessary Flexibility and Internal Control\***

TennCare planned to implement a new system in October 2003; however, as of the end of fieldwork in December 2003, TennCare had not yet implemented the new system. This finding was noted in the five previous audits.

**The Director of Information Systems Did Not Provide Information Timely**

The Director of Information Systems did not provide information necessary to conduct the audit of TennCare timely. The Director also has demonstrated a disturbing lack of understanding of and concern for the objectives of the audit and what is necessary to achieve the audit objectives.

**TennCare Did Not Control Access to the TennCare Management Information System\***

As noted in the five previous audits, TennCare's controls over access to the TennCare Management Information System did not ensure DHS had security forms for all users, allowed unnecessary access to TCMIS, allowed a user to approve his own TCMIS access, accepted pre-signed security request forms for users from the Department of Health, did not adequately document system changes made to TCMIS, did not ensure that the procedures over system changes were adequate, and failed to adequately document changes made using a generic work request number. The Director of TennCare is responsible for ensuring, but did not ensure, that adequate TennCare Management Information System access controls were in place during the audit period. As a result, numerous critical deficiencies in controls were noted during system security testwork.

**TennCare Did Not Submit Its Annual Report or Monthly Summary**

The Bureau of TennCare did not prepare and submit the annual report or monthly summary statements as required by Section 71-5-105, *Tennessee Code Annotated*. These reports provide the Governor and members of the General Assembly with statistical and other information related to the Medicaid/TennCare program.

**Department of Finance  
and Administration**

November 2003

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**The Division of Mental Retardation Services Has Inadequate Controls Over the \$11,206,210 Community Services Network of West Tennessee (CSN) Contract and Has Failed to Seek Federal Reimbursement of Over \$2,000,000**

The division has not followed the provisions of the CSN contract, has not reviewed support for claims, has not maximized federal financial participation, has overspent and reallocated CSN expenditures to other contracts, and has not monitored administrative expenditures. The division reimbursed CSN over \$23,000 for birthday lunches, Christmas parties, and other meals that appeared to be unreasonable and unnecessary.

**The Division of Mental Retardation Services Has Inadequate Controls Over Other Contracts**

A contract was awarded without competitive bids, support for contract payments was not properly approved, and payments were not always within the contract terms. The division's *Operating Guidelines* that are referenced in multiple contracts are not complete. Also, documentation was not available to support certain requests for payment. Unsupported services exceeded \$36,000 in the transactions sampled.

**Documentation for Waiver Services Was Inadequate**

Services related to the Home and Community Based Services (HCBS) waiver were not approved, and clients' files did not include required documentation. Unsupported services exceeded \$21,000 in the transactions sampled.

**The Division of Mental Retardation Services Does Not Have Appropriate Processes in Place to Maximize Federal Financial Participation, Resulting in Additional Costs to State Taxpayers**

The process for obtaining federal financial participation for the HCBS waiver and Arlington/West waiver is inadequate, resulting in conflicting rates and denied or pending claims.

**TennCare Did Not Use the Approved Cost Allocation Plan to Claim Administrative Costs Related to the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled\***

Although TennCare received a written approval for the cost allocation plan, due to a lack of documentation, TennCare has not submitted the administrative costs to the federal government.

**Personnel Files of the Division of Mental Retardation Services Were Incomplete\***

Current and complete personnel files were not maintained. The files did not include documentation required by the federal government, state law, and the Department of Personnel.

**The Department of Finance and Administration, Division of Mental Retardation Services, Has Established Improper Employer-Employee Relationships\***

Management has contracted with agencies to provide individuals that are directly supervised by state employees and contracts for employees that supervise state employees and other contractors. Also, there are multiple contract employees who function much in the same manner as state employees.

**Inadequate Recordkeeping for Equipment at the Developmental Centers Resulted in Missing Equipment That Cost \$470,615\***

Equipment items could not be located, serial numbers and locations listed in the equipment records were not correct, and state tags were missing. Also, an excessive amount of missing items was reported at year-end for the second consecutive year.

**Management of Clover Bottom Developmental Center Continues to Refuse to Address Issues Related to the Circumvention of Bid Requirements, and the Division of Mental Retardation Services Does Not Follow a Conflict-of-Interest Policy\***

Competitive bids were not obtained when necessary, and key employees were not subject to a conflict-of-interest policy.

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**Department of Health**

For the Year Ended June 30, 2003

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**Monitoring of Subrecipients' Audit Reports Is Not Adequate**

The department has not taken the necessary measures to ensure that subrecipients' required audit reports are received no later than nine months following their fiscal year end.

**Unredeemed Food Instruments Were Not Voided Timely**

The department did not account for the disposition of all Food Instruments within the period required by federal regulations. Specifically, the department failed to purge unredeemed food vouchers for the year ended June 30, 2003.

**Required Information Was Not Distributed to Subrecipients\***

The department did not inform subrecipients of all CFDA numbers, program names, and amounts of federal funds awarded. The department has not informed subrecipients through the contracts of all federal information.

**Files of WIC Participants Were Incomplete**

One WIC clinic did not maintain the required documentation for participants, and therefore eligibility could not be substantiated. The clinic failed to maintain the Informed Consent forms for two participants to document the participants' program certification or recertification date.

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**Department of Human Services**  
For the Year Ended June 30, 2003

**The Department Did Not Obtain Required Agreements With Business Associates Prior to Disclosing Protected Health Information**

Fourteen of 224 Business Associate Agreements (6%) were not obtained by the department prior to disclosing protected health information to service providers.

**The Department Did Not Reconcile Expenditures and Did Not Adhere to Department Policy\***

The department did not reconcile the Schedule of Expenditures of Federal Awards or the related federal reports to the state's grant's accounting records at the time of the audit. Also, the department has not complied with F&A Policy 20, *Recording of Federal Grant Expenditures and Revenues*.

**The Department Did Not Comply With Subrecipient Monitoring Requirements\***

The Department of Human Services again failed to comply with Subrecipient Monitoring requirements contrary to instructions from the Department of Finance and Administration. Some subrecipients in the Division of Rehabilitation Services were not being properly monitored.

**The Department of Human Services Did Not Reduce Temporary Assistance for Needy Families for Participants Who Failed to Cooperate With Child Support Requirements\***

Federal regulations require the state to reduce benefits not less than 25%. Twelve of 28 cases tested (43%) did not have benefits reduced appropriately.

**Child Support Enforcement Program Contract Terms Have Not Always Been Followed, Resulting in an Overpayment Exceeding \$421,000 to the Contractor**

The contractor calculated its fee using an estimate of collections instead of using actual collections as required by the agreement. Also, the department did not perform a reconciliation between the amount the contractor was actually paid and the amount the contractor should have been paid.

**The Department Did Not Always Report Alleged Employee Fraud and Did Not Calculate Final Pay Correctly\***

The department did not always report alleged employee fraud to the Comptroller of the Treasury and did not always calculate the final pay of terminated employees correctly. One employee was not reported and one was not reported for nine months. The four employees who were terminated for fraud were underpaid an average of \$500 on their final pay.

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**Local Government Group  
Insurance Fund**

For the Year Ended June 30, 2003

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**The Division of Insurance Administration Does Not Monitor the  
Claims Processed by Insurance Companies on Behalf of the State\***

The division has not been monitoring claims processing by the insurance companies to ensure that only allowable claims are paid.

This reportable condition is considered a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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**Medicare Supplement  
Insurance Fund**

For the Year Ended June 30, 2003

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**The Division of Insurance Administration Does Not Monitor the  
Claims Processed by BlueCross BlueShield on Behalf of the  
State\***

The division has not been monitoring claims processing by BlueCross BlueShield of Tennessee to ensure that only allowable claims are paid.

**The Division of Insurance Administration Does Not Monitor the  
Eligibility of, and the Collection of Premiums for, Direct Pay  
Retirees**

The division has not established a process to ensure that retirees who pay premiums directly to BlueCross BlueShield actually pay the correct amounts and the correct amounts are remitted to the state.

One of the reportable conditions described above was considered a material weakness:

- The Division of Insurance Administration Does Not Monitor the Claims Processed by BlueCross BlueShield on Behalf of the State

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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**Department of Mental  
Health and Developmental  
Disabilities**

For the Period July 1, 2000,  
Through May 31, 2003

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**The Department of Mental Health and Developmental  
Disabilities' Control Environment Is Ineffective**

The department failed to provide for critical lines of communication between the central office and institutions' staff and to facilitate effective communication among staff at the five institutions. As a result, inconsistent policies and procedures were noted.

**The Department of Mental Health and Developmental Disabilities Does Not Have a Uniform, Related-Party Transaction Policy\***

The department failed to finalize a uniform, related-party transaction policy which requires that conflict-of-interest disclosure statements be placed in key employee personnel files. As a result, the department is still not requiring employees department-wide to report conflicts of interest based on a uniform policy.

**The Internal Controls Over the Cash-Receipt and Check-Writing Processes at Middle Tennessee Mental Health Institute Were Inadequate**

The controls over the cash-receipt process at Middle Tennessee Mental Health Institute were not adequate. The institute does not have proper segregation of duties during the cash-receipt process, checks were not included on the mail log, and cash receipts were not deposited timely. In addition, the controls over the check-writing process were not adequate. The institute does not have proper segregation of duties during the check-writing process, and adequate accountability over the check stock was not maintained.

**Internal Controls Over Revenue Recorded in the Behavioral Health Information System Were Not Adequate**

The department's controls over revenue recorded in the Behavioral Health Information System (BHIS) were not adequate. The five mental health institutes inconsistently posted revenue to BHIS and did not properly reconcile revenue posted.

**Memphis Mental Health Institute Processed Consultant Travel Claims Using Outdated Travel Regulations\***

The Memphis Mental Health Institute failed to process travel claims for the consultants under contract with the institute in accordance with current travel regulations.

**The Department Did Not Properly Approve Contracts Before the Beginning of the Contract Period\***

The department has continued to approve contracts after the beginning of the contract period, which allowed services to be rendered before contracts were approved. Contracts were not approved until 8 to 250 days after the beginning of the contract period, an average of 60 days late.

**The Department's Policies Related to Individual Trust Fund Balances of Discharged Patients Were Inadequate and Ambiguous\***

The department failed to revise ambiguous policies regarding balances of discharged patients. As a result, inconsistent timetables were used among the five mental health institutes for sending notification letters to the patient and for seeking approval to transfer funds to the benevolent fund.

**The Department's Inventory Systems Were Not Adequately Maintained\***

The department still has not adequately maintained the inventory control systems. In a sample of departmental inventory items, many items did not match the amounts shown on the inventory listing. Problems were noted at four of the five mental health institutes.

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**Military Department of Tennessee**

For the Period July 1, 2000,  
Through March 31, 2003

**Inadequate Controls Over Equipment\***

Equipment records were not always accurate. The department's inventory procedures were not completely followed. Also, proper procedures for the addition, deletion, and surplusing of equipment were not always followed.

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**Department of Revenue**

For the Period July 1, 2001,  
Through March 31, 2003

**The Department Is Not Revoking RACF IDs of Terminated Employees in Accordance With Policy**

The department is not revoking RACF IDs of terminated employees in a timely manner. The IDs were revoked as late as 70 days after the date of termination.

**Data Security Revision Forms Could Not Be Located**

The department could not locate three Data Security Revision Forms when requested for review. The Department of Revenue's Information Technology Resources (ITR) division uses Data Security Revision Forms to document a user's access to RITS and the approval for such access.

**The Department Processes Tax Returns That Do Not Have a Taxpayer's Signature**

Testwork performed on the Processing division revealed that several unsigned tax returns mailed in by taxpayers were processed without obtaining the taxpayers' signature. Returns that do not contain the taxpayer's signature may not be enforceable.

**Interest Calculations Were Not Properly Computed, and the Approval of Refund Claims Was Not Always Documented\***

Testwork revealed that management is not approving refunds properly and interest calculations were not properly computed. Also, the department lacks controls to ensure that interest calculations are accurate.

**The Department Needs to Enhance and Enforce Universal Policies for Tax Enforcement Offices**

Differing procedures for following current policies were being implemented at each Tax Enforcement office reviewed. Also, recent supervisory decisions made by management in Nashville were not communicated efficiently to all offices. Currently, there is no Tax Enforcement supervisor's manual in place.



**In-Dates Recorded in the Tax Enforcement Officers' Diaries Do Not Always Agree With RITS or Other Supporting Documentation**

The in-dates recorded in the diaries do not always agree with the in-dates recorded in RITS, with the postmark date on the envelope, or with the receipt written for the collection. The officers do not always provide sufficient information to determine if the correct in-date is recorded in the diary or in RITS.

**Procedures Over Tax Enforcement Collections Need Improvement**

Receipts are not immediately sent to the Nashville office from the field offices. The department's Tax Enforcement offices do not adequately safeguard monies that are not deposited or mailed the same day they are collected.

**Tax Enforcement Officers Are Not Properly Maintaining Diaries and Receipt Books**

The department's diaries, which are used by Tax Enforcement officers to record all collections received, are not maintained sufficiently. Nine of 22 officers' calculations for the monthly collection totals were not mathematically accurate. Twenty-two of 22 officers reviewed (100%) had collections that were not recorded correctly. In addition, 17 of 22 officers (77%) did not correctly complete their receipt book or receipts.

**Renewal of Government Petroleum Permits Is Not Enforced in Accordance With State Law**

Fifty-five of 60 government petroleum exemption permits tested (92%) were not renewed every three years as required by Section 67-3-1501(b), *Tennessee Code Annotated*.

**Tax Bond Reviews Are Not Completed Timely**

The Taxpayer Services division is not completing bond reviews according to department policy. For 20 of 60 motor fuel bonds tested (33%), the review was not performed timely. Testwork on tobacco bonds revealed that for 2 of 25 tested (8%), the review process was not initiated at all.

**Tax Bonds Lacked Proper Signature Approval by the Commissioner\***

As noted in the prior audit, the department does not ensure that signature approval is present on all surety bonds submitted by taxpayers.

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**Department of Safety**  
October 2003

**The Department Did Not Notify the Comptroller's Office About Gross Misconduct**

The department did not notify the Comptroller's office about four employees who were terminated for inappropriate conduct which should have been reported to the Comptroller's office.

### **The Department Has Not Properly Monitored Employees' Access to the State's Computer Applications**

Persons who either no longer work for the state or have transferred to other departments continued to have access to departmental accounting, purchasing, equipment, and driver's license records. Other employees had levels of access that either created an inadequate segregation of duties or were not needed for their job duties.

### **Controls Over Equipment Are Inadequate\***

Aircraft costing approximately \$2 million was not listed in the Property of the State of Tennessee (POST). Equipment costing \$225,000 was reported lost or stolen during the audit period. Two pieces of active equipment costing at least \$5,000 could not be found. Information in POST about some equipment was incorrect.

### **The Cash Receipting Procedures and Controls at the Driver's License Stations Were Not Adequate**

Reconciliations of applications to fees received were not prepared timely. Access to the change fund was not adequately limited. Some cash receipting duties were not adequately segregated. Driver's license renewals and reinstatements could not always be reconciled to the corresponding deposit of the money received from the driver.

### **The Department Still Has Not Posted Accidents and Violations to Drivers' Records Timely\***

Since 1990, the department has not posted accidents and violations to drivers' records in a timely manner. For accidents, it took an average of 158.3 days from the date of the accident to the date that it was posted to the driver's record. For violations, it took an average of 121.5 days from the conviction date to the date that the violation was posted to the driver's record. The department has not been performing a quarterly reconciliation of the fines and fees shown on the department's ticket accountability system to the money actually received from the counties.

### **On-Line Driver's License Renewals Were Not Properly Reconciled**

The department has not been reconciling the on-line renewal activity shown on the state's legacy system to the daily activity reports received from the Internet portal provider and the credit card settlement company.

### **Bad Checks Were Not Posted to the Database Timely\***

The department has not always posted bad checks to the database within 10 days. The delays ranged from 11 to 195 days. The department has not been notifying drivers promptly about the bad checks.

**The Department Has Not Properly Verified Local Law Enforcement Agency Annual Rosters of Peace Officers Seeking Salary Supplements**

The department's POST commission has not been monitoring the accuracy of the pay supplement rosters submitted by the local law enforcement agencies.

**Controls Over the Reconciliation of Motor Vehicle Plates and Decals With Revenue Are Inadequate\***

The Motor Vehicle Title and Registration Division (MVD) has not been reconciling the vehicle plates and decals issued to the counties to the revenue received from the county clerks for the sale of these items.

**Controls Over Secondary Employment Were Inadequate\***

The department has not been ensuring that commissioned employees who have been approved for secondary employment are not working on a second job while they are on sick leave status with the state.

**Driver Training Schools Were Not Properly Monitored**

The department has not been monitoring driver training schools at least once per year to ensure that the quality of instruction is adequate.

**The Department Did Not Submit a Title IX Implementation Plan**

The department has not been submitting a Title IX implementation plan to the Comptroller's office each year, even though it conducts a training program that is open to the public.

**Adequate Physical Controls Not Present for Department's Computer Room**

Management does not have adequate physical controls over the computer room to prevent unauthorized access to the system.

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**Teacher Group Insurance Fund**

For the Year Ended June 30, 2003

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**The Division of Insurance Administration Does Not Monitor the Claims Processed by Insurance Companies on Behalf of the State\***

The division has not been monitoring claims processing by the insurance companies to ensure that only allowable claims are paid.

This reportable condition is considered a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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**Tennessee Wildlife Resources Agency**

June 2003

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**Controls Over Cash Receipts for the Managed Quota Hunts Division of the Central Office Need to Be Improved\***

For 24 years, the Tennessee Wildlife Resources Agency has received audit findings regarding the lack of controls over the cash receipt process. Controls over cash receipts in the Managed Quota Hunts Offices still need to be strengthened.

**TWRA Should Maintain Subsidiary Records for Lease Agreements**

The agency does not maintain subsidiary records for lease agreements; therefore, it is unable to reconcile payments received to the original lease agreements.

**TWRA Is Not Adequately Maintaining Equipment Records**

The agency has not adequately updated the Property of the State of Tennessee (POST) system to reflect accurate information regarding equipment.

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**Department of Tourist Development**

June 2004

**Controls Over Expenditures Need Improvement**

The department does not have an adequate segregation of duties related to purchasing, and the state's purchasing policies and procedures were not always followed.

**Over Cash Receipts Are Weak**

Cash-receipting duties are not adequately segregated. Reconciliations between cash receipts, accounting records, and deposits are not performed by an employee independent of those functions. Cash receipts are not written immediately upon receipt of the funds.

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**Department of the Treasury**

For the Year Ended June 30, 2003

**The Department of the Treasury's Reconciliation of Collateral Was Inadequate**

Our review of the June 30, 2003, collateral reconciliation revealed significant differences between the department's listing of collateral and the third-party custodians' listings of collateral. These differences were not discovered during the department's reconciliations. One of the differences was due to a duplicate collateral security on the department's listing resulting in the state's deposits being undercollateralized by \$1,852,926 at June 30, 2003.

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**Tennessee Rehabilitative Initiative in Correction**

For the Period July 1, 2000, Through March 31, 2003

**Cost Accounting System for Raw Materials Needs Improvement**

The unit cost for raw materials is not always accurate, and policies covering shipping and handling charges need to be developed.

**Disaster Recovery Plan Needs Updating**

The disaster recovery plan has not been updated since June 29, 1999. The agency's cost accounting system is not mentioned in the plan.

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**Tennessee State Veterans' Homes Board**

For the Year Ended June 30, 2002

**For the Sixth Consecutive Year, Accounts Receivable Practices Are Not Adequate\***

The Tennessee State Veterans' Homes Board's accounts receivable balance still does not portray a complete picture of the current receivable activity or the true amount the board must attempt to collect. The board has not promptly refunded Medicaid overpayments. The board has not properly reduced the rate adjustment for certain Medicaid-eligible veterans, and there are several unexplained negative receivable balances.

**Accounting Records Do Not Portray a True Picture of Receivables**

The Tennessee State Veterans' Homes Board does not maintain adequate accounting records regarding receivables. The balances shown on the financial statements as well as the individual receivable balances for a number of past and present residents do not portray an accurate picture of the amounts owed to the board.

**For the Sixth Consecutive Year, Internal Control for Capital Assets Is Not Adequate\***

Significant deficiencies continue to exist in internal control for capital assets. These deficiencies include an inability to correlate the results of physical inventories with accounting records, the failure to remove or investigate missing or surplus equipment, and incomplete policies and procedures. In addition, the board's assets may not be adequately insured.

**Management Still Did Not Monitor the Activities of the Trustee and Did Not Maintain Internal Control Over Cash\***

Management did not maintain internal control over cash. As a result, numerous errors occurred in the trust accounts and in the cash accounts on the general ledger.

**Management Failed to Provide Adequate Documentation for the Audit Process**

Management did not retain all documentation necessary for the audit process, resulting in a disclaimer of opinion on the financial statements.

**Internal Controls for Information Systems Are Not Adequate**

Few policies and procedures, either written or unwritten, relating to the information system are maintained. Also, controls regarding access to the system are weak.

**Collection Efforts for Accounts Receivable Are Not Adequate**

Written procedures to collect receivables are not followed and action taken to collect the receivables is not documented.

**Internal Control for Purchasing Is Not Adequate\***

The board facilities do not have an adequate segregation of duties relating to purchasing, the board's policies and procedures over purchasing are not being followed, and service contract approvals required by state law are not being obtained.

**Improper Employer/Employee Relationships and Potential Conflicts of Interest Were Noted**

Improper employer/employee relationships between independent contractors and the Humboldt facility were noted. The hiring of the individuals as contractors circumvented the personnel policies related to conflicts of interest.

**For the Fourth Consecutive Year, Receipt of Goods and Services Was Not Documented\***

The verification of receipt was not consistently documented.

**Petty Cash Policies Are Still Inadequate and Are Still Not Being Followed\***

The petty cash policy does not address what types of purchases can be made through petty cash funds. The policies and procedures that have been adopted are not being followed.

**For the Sixth Consecutive Year, Accounts Receivable Practices Are Not Adequate\***

The board has not promptly refunded Medicaid overpayments, and the management company has not properly reduced the rate adjustments for certain Medicaid-eligible veterans.

**The Board Still Did Not Comply With Legally Binding Documents, Losing Control of Cash Flow\***

The board has failed to meet all of the requirements within the Official Statements and other Bond Documents. Control of spending was circumvented when transfers were not made as set forth in the bond documents.

**The Foundation Board Continues to Improperly Use Veterans' Homes Board Employees and Resources for Its Operations\***

Employees of the board handle cash receipting and financial records for the foundation.

**Travel Claims Again Were Not in Compliance With Comprehensive Travel Regulations, Resulting in Excessive Reimbursement of Over \$2,000\***

Board members and employees of the facilities have not completed travel claims in accordance with Comprehensive Travel Regulations.

Five of the reportable conditions described above were considered material weaknesses:

- For the sixth consecutive year, accounts receivable practices are not adequate
- Accounting records do not portray a true picture of receivables
- For the sixth consecutive year, internal control for capital assets is not adequate
- Management still did not monitor the activities of the trustee and did not maintain internal control over cash
- Management failed to provide adequate documentation for the audit process

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may

occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The material weaknesses regarding accounts receivable practices and the compliance finding regarding noncompliance with the bond documents also report material noncompliance.

#### **Disclaimer on the Financial Statements**

Certain records and documentation supporting transactions and account balances were not available for our audit. Other records have not been adequately maintained. Therefore, we were not able to satisfy ourselves about the amounts at which cash, accounts receivable, furniture and equipment, and accounts payable are recorded at June 30, 2002, and the amounts of expenses and revenues for the year ended June 30, 2002. Because of the significance of these matters, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements.

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#### **Department of Transportation**

For the Year Ended June 30, 2003

#### **The Department Should Improve Controls Over Construction-in-Progress**

The department does not have an effective means of ensuring that all completion notices are appropriately submitted to the fiscal office. Seventeen of 54 construction-in-progress projects tested (31%) were actually completed prior to June 30, 2003, resulting in misclassified assets. Furthermore, the fiscal office has not adequately reviewed the listing of construction-in-progress projects for reasonableness.

#### **DOT Management Did Not Ensure Departmental Policies and Procedures Were Followed Regarding the Davis-Bacon Act\***

As noted in 15 of the past 19 years (beginning with the year ending June 30, 1984), department personnel do not always adhere to the policies and procedures established by the department to monitor classifications and wage rates as required by the Davis-Bacon Act. Interviews with laborers and mechanics to help ensure contractors' wage compliance were not always conducted.

### **Universities, Colleges, Technical Institutes, and Technology Centers**

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#### **Austin Peay State University**

For the Year Ended June 30, 2003

#### **Ineffective Monitoring and Tracking of Capital Purchases Led to the Reporting of an Inadequately Documented Equipment Addition**

The university could not provide adequate supporting documentation for a \$384,647.35 amount originally reported as a gift on the Schedule of Changes in Investment in Plant for the fiscal year ended June 30, 2003.

#### **Pell Payment Data Not Reported in a Timely Manner**

The university did not always report Pell disbursements to the Department of Education within the required 30 days.

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**Foundation Scholarship Accounts Were Permitted to Reach Significant Negative Account Balances, Ultimately Resulting in the Foundation as a Whole Not Having Adequate Resources to Fund Current Operations**

In accordance with the foundation's mission statement, scholarships are issued in the name of the foundation to students at the university. The university's President awarded the Foundation Honors Scholarships without input or review by the foundation board or foundation personnel. Over the past few years, foundation and university personnel did not adequately monitor the balances in the Foundation Honor scholarship account, the Academic scholarship account, and the Alumni Scholarship Drive account. As a result, scholarships were awarded to students without funds available in these accounts to cover the scholarships awarded.

**Not All Foundation Honors Scholarship Recipients Tested Were Eligible for the Aid Received, and as a Consequence, the Foundation Was Not Able to Provide Scholarships to Students Who Met the Criteria for Scholarships**

The Tennessee State University Foundation does not adequately monitor honors scholarship accounts to ensure that students meet the appropriate criteria. Based on the testwork performed related to foundation honors scholarships, some ineligible students received foundation honors scholarship funds and some students continued to receive foundation honors scholarship funds after they became ineligible.

**The Tennessee State University Foundation Does Not Have Adequate Procedures for Recording and Reconciling Revenues and Maintaining Documentation**

The Tennessee State University Foundation does not have adequate procedures for recording and reconciling of revenues. In addition, foundation personnel could not provide adequate documentation that all funds received had been appropriately deposited through the university Bursar's Office and had been correctly posted to the specified foundation accounts.

**The University President Exceeded His Authority by Improperly Entering Into an Agreement With the Tennessee State University Foundation**

The university President improperly entered into an agreement with the Tennessee State University Foundation in order to attempt to remedy negative scholarship account balances and negative current cash and cash equivalent amounts shown on the foundation's accounting records. This agreement was authorized by the university President without the approval of the Tennessee Board of Regents, which was in violation of the Board's guidelines.



**The University Has Not Implemented Adequate Controls Over Management of Computer User Accounts**

The university has not implemented adequate controls over management of computer user accounts. The university's policies require the protection of proprietary, personal, privileged, or otherwise sensitive data and resources that may be processed in any manner. Improvements are needed to comply with this policy. Failure to provide such controls increases the risk that unauthorized individuals could access sensitive university systems and information.

**The University Did Not Submit Correct Data on the FISAP**

The Financial Aid Office did not submit correct data to the U.S. Department of Education on the 2002-2003 Fiscal Operations Report and Application to Participate (FISAP) submitted on October 1, 2003, and the revised 2001-2002 FISAP submitted December 2002. The FISAP, which is for campus-based financial aid, consists of the Application for Participation for the upcoming award year and the Fiscal Operations Report for the previous award year. If the Financial Aid Office submits incorrect and unverifiable data on the FISAP, the allocation of funds from the Department of Education could be affected.

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**The University of Tennessee**

For the Year Ended June 30, 2003

**University Collection Policies for Accounts Receivable Were Not Followed**

At the University of Tennessee at Martin, for 11 of 30 student account receivable balances tested at June 30, 2003, departmental personnel did not follow prescribed collection procedures. University *Fiscal Policy* requires that "after six months, an external collection agency [should be] used for all past due accounts totaling \$50 or more." Each of these balances was more than six months old, exceeded \$50, and had not been turned over to a collection agency.

**Need to Follow Procurement Card Procedures**

Based on audits performed by the university's internal audit staff, departmental personnel are not complying with university *Fiscal Policy* relating to procurement card transactions. Instances were discovered where invoices were split to avoid bid limits. Receipts were sometimes missing or inadequate. There were missing procurement card statements, statements not signed by the cardholder, statements not properly verified, and statements not properly approved. The failure of university personnel to follow *Fiscal Policy* as to procurement card transactions could lead to unauthorized, imprudent, and/or fraudulent transactions.

**Failure to Properly Record Serial Numbers and Tag Numbers for Federal Equipment\***

Departmental personnel are failing to enter the serial numbers and tag numbers of equipment purchased with federal funds on the university accounting system. Without the prompt recording of this information on the university's accounting system, the university will lack the ability to properly safeguard and control these equipment assets.

**Federal Financial Reports Were Not Submitted on a Timely Basis**

Seven of 25 financial reports tested for the university's federal research and development programs were not submitted on a timely basis. The seven reports originated on the Memphis campus and were all Financial Status Reports for National Institute of Health grants. The reports were submitted between 10 and 161 days late.

**Student Status Changes Were Not Reported on a Timely Basis**

At the University of Tennessee at Memphis, the university did not properly report enrollment changes for Federal Family Education Loan borrowers who dropped classes, withdrew, or graduated.

## Community Services Agencies

**Davidson County  
Metropolitan Community  
Services Agency**  
For the Year Ended June 30, 2002

**The CSA Is Not Operating as a Distinct Entity Separate From the County\***

The distinction between the Davidson County Metropolitan Community Services Agency (CSA) and the Metropolitan Government of Nashville and Davidson County is convoluted and frequently impossible to differentiate.

**The CSA Did Not Monitor Its Contract With the Metropolitan Government\***

The CSA has not monitored the Metropolitan Government of Nashville and Davidson County's fiscal and program performance to ensure that the metropolitan government has complied with the terms of the contract.

**The CSA Incurred Expenses Without an Executed Contract\***

The CSA allowed the metropolitan government to provide services for more than ten months of the fiscal year ended June 30, 2002, before a properly approved and executed contract was in place.

One of the reportable conditions described above was considered a material weakness:

- The Davidson County Metropolitan Community Services Agency is not operating as a distinct entity separate from the Metropolitan Government of Nashville and Davidson County.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

**The CSA Transferred \$273,615.96 in Violation of State Statute\***

During the year ended June 30, 2001, the CSA transferred \$273,615.96, including a "donation" of \$209,468.98, to the

Metropolitan Government of Nashville and Davidson County in violation of state statute. The transfer has not been included in a Plan of Operation or subsequent amendments and has not been approved by the appropriate state officials.

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**East Tennessee Community  
Services Agency**  
For the Year Ended June 30, 2002

The agency's Interim Executive Director donated assets to a related party without proper approvals.

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**Knox County Community  
Services Agency**  
For the Year Ended June 30, 2002

**The Agency Did Not Comply With Contract Terms and Did Not Include All Contracts in Its Plan of Operation**

Management permitted expenditures to be incurred before appropriate approvals were obtained. In addition, management did not include one service contract in its plan of operation as required by *Tennessee Code Annotated* and did not update the plan of operation to reflect five contract amendments.

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**Southeast Community  
Services Agency**  
For the Year Ended June 30, 2002

**Controls Over Contracts Need Improvement**

Management permitted liabilities to be incurred before appropriate approvals were obtained. In addition, management did not include five contracts in its plan of operation as required by *Tennessee Code Annotated*.

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**Upper Cumberland  
Community Services  
Agency**  
For the Year Ended June 30, 2002

**Controls Over Contracts Need Improvement**

Management permitted liabilities to be incurred before contracts were approved and included in the plan of operation. Also, Upper Cumberland Community Services Agency operated the Independent Living program without having a contract with the Department of Children's Services for the program.





**Gregg Hawkins, CPA**  
**Assistant Director**

The TennCare section of the Division of State Audit, under an agreement with the Department of Finance and Administration, performs certain audit and rate-setting functions for the state's TennCare program.

A staff of 19 professional auditors and one nurse auditor perform the following functions:

- Rate setting and audit for nursing homes and Intermediate Care Mental Retardation facilities that participate in the Medicaid Program.
- Examinations of TennCare Managed Care Organizations (MCOs) and Behavioral Health Organizations (BHOs) that contract with the state to provide medical services under the program. The examinations are performed jointly with, and released under, the Department of Commerce and Insurance.
- Computing of Certified Public Expenditures (CPE) for public hospitals. CPE is defined as unreimbursed TennCare costs. The TennCare waiver provides for additional federal funding depending on the level of CPE in public hospitals.
- Computing of reimbursement settlements and prospective rates for Federally Qualified Health Centers (FQHC) and Rural Health

Clinics (RHC) as required by the Benefits Improvement and Protection Act of 2000 (BIPA).

- Cost settlements for state-operated Development Centers that provide services to mentally retarded recipients.
- Clinical monitoring of the state's Mental Retardation Waiver project.

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**Examinations of Nursing Facilities**

In fiscal year ended June 30, 2004, the TennCare section completed seven examinations of nursing facilities and intermediate care facilities. The examinations reported findings such as

Nonallowable expenses  
Inaccurate accumulation of patient days  
Excessive charges to Medicaid residents

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**Examinations of TennCare MCOs and BHOs**

In fiscal year ended June 30, 2004, the TennCare section assisted the Department of Commerce and Insurance in performing two examinations of MCO and BHO contractors. Examples of significant findings reported included

Deficiencies in claims processing system  
Deficiencies in provider contract language

The TennCare section also performs quarterly monitoring of one of the MCOs that is currently under state operation.

In addition to audit and rate-setting, the TennCare section also provides some financial and budgeting support to the program. For example, nursing home payments are tracked so that the state can better prepare its budgets.

Also, the TennCare section provides for monitoring compliance with the orders and consent decree entered by the federal court governing TennCare Enrollee Appeals.

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**Special Projects – Grier Consent Decree**

The state, legislature, or federal government often requests that the Division of State Audit work on special TennCare projects. One such project is currently in progress:

- The state, under a consent decree with the federal court, has agreed to comply with certain requirements with respect to TennCare enrollee grievances and appeals. The TennCare managed care contractors and their providers are also subject to the consent decree, so it has widespread implications. The agreement, commonly referred to as the "Grier Consent Decree," became fully effective on November 1, 2000.

The Grier Consent Decree required the state to enter into an agreement with the Comptroller's Office to monitor all aspects of compliance with the order and to report quarterly. The areas to be addressed specifically in the report are as follows:

- (a) Compliance with notice and appeal procedures when the defendants or others acting on their behalf propose to take any adverse action affecting inpatient or residential behavioral health services.
- (b) Compliance with requirements that provide special notice and appeal protections for children in state custody.
- (c) The consistency and rigor of the defendant state officials' actions to enforce the terms of this order against their contractors.
- (d) The extent to which the defendant state officials are analyzing data to identify patterns of contractor noncompliance with federal or state requirements and taking appropriate action to correct systemic violations or other problems adversely affecting beneficiary care.
- (e) Compliance with the special provisions pertaining to pharmacy services.
- (f) The adequacy of beneficiary notices provided by state officials and their contractors.
- (g) Procedures to monitor compliance with requirements for the public posting of notices informing beneficiaries of the rights and protections incorporated in this order.
- (h) Address other selected areas as considered necessary.

Quarterly reports through September 30, 2004, have been completed and the report for the quarter ending December 31, 2004, is in progress.





## Performance

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**Deborah V. Loveless, CPA, MBA, CGFM**  
**Assistant Director**

A performance audit is an independent examination of the extent agencies and departments of state government are faithfully carrying out their programs. The audit reports assist the General Assembly and agency management

- by assessing the extent to which state agencies have fulfilled their statutory mandate and the efficiency and effectiveness of management's organization and use of resources,
- by developing recommendations for management or legislative action that might improve the efficiency and effectiveness of the agency's operations, and
- by providing pertinent program and financial data about the agencies.

Most of the performance audit section's workload is performance auditing directed by the Tennessee Governmental Entity Review Law, commonly known as the Sunset Law (Section 4-29-101 et seq., *Tennessee Code Annotated*). This law requires that each agency, board, commission, or other entity be reviewed at least once every eight years by the legislative Joint Government Operations Committee to determine whether that entity should be continued, restructured, or terminated.

Audit staff focus their efforts on the audits of major entities. In the year ended June 30, 2004, the performance audit section released 12

audit reports and 2 special reports and had 15 projects in process at year-end. The Government Operations Committees held 18 public hearings on 53 entities in the year ended June 30, 2004. At these hearings, performance audit staff presented audit reports covering 28 entities. Another 23 entities submitted written responses to staff-prepared questions based on their statutory authority and responsibility. In addition, the committee received updated information requested in prior-year public hearings on two entities.

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## **Audit Process**

Performance audits are conducted in accordance with government auditing standards generally accepted in the United States of America. Audits progress through six phases: planning, detailed audit field work, report writing, comments from agency management, publication of the final report, and presentation of the final report at a legislative hearing. Performance auditing includes the following activities:

- Review of relevant state and federal laws, court cases, Attorney General's opinions, executive orders, rules, and regulations.
- Review of the agency's procedures, plans, and policies.
- Examination of the agency's records, files, and correspondence.
- Interviews with staff of the audited agency and related agencies.
- Observation of the agency's operations and activities.
- Analysis of the agency's revenue and expenditure data.
- Analysis of the agency's program data, performance measures, and reported results.
- Review of comparative data from other states.
- Surveys of individuals, agencies, and organizations served or affected by the agency.
- Tests for compliance with significant legal and administrative requirements.
- Evaluation of the extent to which the agency achieved desired results at the lowest reasonable cost.
- Recommendations of possible alternatives for legislative or administrative action that may result in more efficient and effective accomplishment of the agency's legislative mandate.

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## **Results of Audits**

The following are summaries of the results of the 12 audit reports and 2 special reports released during the year ended June 30, 2004.\*

\*Findings repeated from prior audits are marked with an asterisk.

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**Department of Agriculture**  
February 2004

**The Division of Forestry Has Not Required Its Fire-Fighting Staff to Meet Any Physical Fitness Standards\***

As noted in the April 1998 performance audit of the department, the Division of Forestry does not require fire-fighting personnel to achieve minimum levels of fitness. Wildland fire fighting requires working in difficult environments that demand a high level of conditioning to safely perform physically demanding work. Physically fit workers perform better in hot environments and recover faster from adverse fire-fighting conditions. Furthermore, a firefighter's physical capabilities may reduce the chance and/or the frequency of fire line accidents or injuries, medical expenses, productivity losses, and administrative costs.

**The Pest Control Section Cannot Ensure That All Pest Control Businesses Have Been Inspected, Nor Does the Section Maintain a Database Allowing Management to Effectively Oversee the Handling of Complaints Against Pest Control Operators\***

The department's Pest Control Section is responsible for the regulation of all pest-control businesses in Tennessee. The April 1998 performance audit of the department found that management's information on the monitoring of pest-control businesses was inadequate. The department concurred and stated that staff intended to house case files in the main office, develop policies (e.g., how to manage case files), upgrade work documentation of field staff, and implement a case-tracking system. Since that time, the department has made improvements, most notably the implementation of a case-tracking system. Our review during this audit indicates, however, that weaknesses still exist. Section management does not appear to have mechanisms in place to ensure the routine inspection of all pest-control businesses. In addition, section management does not have sufficient information to ensure that pest-control-related complaints are handled efficiently.

**OBSERVATIONS AND COMMENTS**

The audit also discusses the following issues: (1) the department's lack of an internal auditor, (2) the need for the department to continue to develop its Geographic Information System capabilities and to ensure appropriate coordination and communication as development progresses, (3) the extent to which the department's regulatory programs are financially self-sufficient, (4) improvements in the Weights and Measures Section, and (5) efforts to safeguard the state's animal populations in the event of a disease outbreak or terrorist attack.

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**Board for Licensing  
Health Care Facilities**  
August 2003

**Lack of Legal Staff Resulted in Delays in Action on Abuse and Neglect Cases**

From September 2001 through mid-April 2002, the Division of Health Care Facilities did not have an Office of General Counsel staff attorney assigned to work referred cases of abuse or neglect. During that time period of nearly eight months, 87 cases of suspected abuse or neglect were referred to the Division of Health Care Facilities for

review. However, no final actions (i.e., placing an individual on the division's Abuse Registry or closing the case) could be taken on those cases during that time. Timely processing of abuse and neglect cases is vital to ensure that individuals guilty of abusing or neglecting a vulnerable person are identified on the Abuse Registry (and thus should not be hired to work in similar situations again) or that innocent individuals are exonerated as soon as possible.

**The Division Did Not Always Investigate Complaints in a Timely Manner, and Some Guidance Regarding Investigations of Complaints Is Unclear\***

Both the July 1996 and the December 1998 performance audits of the board found that the Division of Health Care Facilities' investigations of complaints, particularly those alleging abuse and neglect, were not always timely. Our current review of complaint files, for a sample of facilities throughout the state, indicates that the timely investigation of serious complaints is still a problem. Failure to promptly investigate such complaints makes it more difficult for division staff to substantiate allegations, to react to and facilitate prompt correction of problems, and to ensure that facilities are providing the best possible care. In addition, differences between state and federal policies regarding complaints and the lack of clear direction in some areas from the Centers for Medicare and Medicaid Services (CMS) may create confusion for staff regarding requirements.

**The Board Was Not Self-sufficient for the Year Ended June 30, 2002, and Failed to Report This Status by the Statutorily Required Date**

Section 68-11-216, *Tennessee Code Annotated*, states that the General Assembly intends for the board to generate sufficient fees to pay operating costs including, but not limited to, licensure and inspection costs. If the board fails to collect sufficient fees, the Commissioner of Health is to certify and report this occurrence to the Government Operations Committee of each house and the Tennessee Code Commission on or before June 30, 2002, and each year thereafter. Based on our review of relevant financial reports, we determined that the board ended fiscal year 2002 with a \$206,752 deficit balance. Based on the deficit and the Closing Status Report date, we concluded the board was not in compliance with statutory requirements that the board collect sufficient revenues to cover operating expenses and report any deficit by June 30, 2002.

**One Board Member's Position Has Remained Vacant for an Extended Period of Time**

Section 68-11-203, *Tennessee Code Annotated*, requires that the Board for Licensing Health Care Facilities consist of 20 members. Board members are appointed by the Governor and serve a four-year term. As of June 2003, however, there were only 19 members serving on the board, and a Consumer Representative appointment had been vacant since January 31, 2001. When positions are allowed to remain

vacant, the board is deprived of another perspective (deemed important by the General Assembly) in its decision making.

#### **OBSERVATIONS AND COMMENTS**

The audit also discusses the following issues: (1) continued weaknesses in the abuse registry, despite improvements; (2) limits in the range of enforcement actions available for use against some types of facilities; (3) discrepancies between complaint information found on the complaint log and information found in regional files; (4) methadone clinics in Tennessee; (5) the decrease in waivers of board rules; and (6) the Nursing Home Compare system.

#### **ISSUES FOR LEGISLATIVE CONSIDERATION**

The General Assembly may wish to consider revising the due date for the report regarding the board's self-sufficiency, since final information on revenues and expenditures may not be available on the last day of the fiscal year.

The General Assembly may wish to consider legislation allowing the Department of Health to impose civil penalties against all types of facilities.

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**Department of  
Children's Services**  
November 2003

#### **Management Must Address Problems in the Foster Care Program**

The department has had problems meeting the requirements of court settlements. These requirements relate to such areas as foster child visitation, appropriateness and tracking of children's placements, and permanency planning. Management established policies to meet the court settlement requirements, but has not adequately monitored field staff to see that these policies were followed and that requirements were accomplished.

#### **Foster Care Case Managers Do Not Always Adhere to Visitation Requirements\***

Case managers do not appear to consistently follow visitation standards. The department does not have effective methods in place to adequately assess the timeliness of visitation. Failure to adhere to visitation standards diminishes the department's ability to ensure each child's adjustment to the placement and to determine whether each child's needs are being met, including access to appropriate treatment and services.

#### **The Department Does Not Adequately Track Foster Care Placements or Ensure Case Workers Follow Related Policy\***

The department does not adequately track the placements of children or ensure that policies regarding the placement of children within the foster care system are routinely followed, impeding the department's ability to ascertain a child's location and the appropriateness of a placement.

**Foster Care Staff Adherence to Permanency Plan and Quarterly Progress Report Policies Needs Improvement**

Department staff are not routinely following policies and procedures regarding permanency planning and quarterly progress reports for children in foster care. Failure to ensure routine application of policies and procedures as well as the timely performance of quarterly progress reports diminishes the department's ability to reach its goal to make foster care as temporary an arrangement as possible, providing each child a permanent home as quickly as possible.

**The Service Delivery System for Foster Children and Their Families Needs Improvement**

The department does not appear to consistently provide children and families with adequate and effective services or efficiently use the available resources in the service system to ensure the best possible outcomes for its clients. As a result, the department is less able to prevent cases from being open for years with little progress, children having multiple placements, children aging out of the system alone and unprepared for independence, siblings drifting apart, and cases where it is unclear who is responsible for critical decisions.

**Not All Required Physical Examinations of Foster Care Children Are Being Performed**

Foster children do not appear to be receiving required health screenings in a routine and timely manner. Failure to ensure the timely provision of these services diminishes the department's ability to better match and increase needed services to support each child.

**Case Managers May Not Receive Accurate Notifications of Children's Health Evaluations**

The department's information system has not always effectively calculated the due date for children's next medical or dental evaluations. As a result, case managers were not able to rely on the data to plan children's health evaluations.

**Qualified Foster Care Children Do Not Appear to Be Receiving All Necessary Independent Living Services**

Foster children who qualify for independent living services do not appear to routinely receive these services. Failure to adequately provide these services hinders the department's ability to assist youth in their preparation for adulthood.

**There Is No System to Document Foster Home Complaints**

Abuse and neglect allegations in foster homes, whether founded or unfounded, are not monitored or tracked by the department's central office. As a result, it is unclear whether department staff, in the central office or in the regions, are implementing department policy regarding investigations of allegations of abuse or neglect in department-approved foster homes and whether staff are taking any necessary corrective actions.

**Foster Home Recruitment Is Inadequate**

The department does not appear to have an effective, uniform program for recruiting foster and adoptive homes that complies with legal requirements, including ensuring that the pool of foster and adoptive families reflects the ethnic and racial diversity of the children and families for whom the department provides placement and services. The lack of an adequate recruiting program hinders the department's ability to effectively recruit foster and adoptive homes to meet the needs of children in state custody.

**Information in Foster Home Registers Is Incomplete**

Registers of foster home information maintained by the department's regional offices do not contain all of the information required by department policy or maintain information on all foster homes in that respective region. Failure to maintain information on all foster homes in each region hinders the department's ability to ensure compliance with the department requirements, including ensuring that the pool of foster and adoptive families reflects the ethnic and racial diversity of the children and families for whom the department provides placement and services.

**The Department Appears Not to Always Obtain Required Psychotropic Medication Consent Forms**

Department staff does not appear to consistently obtain appropriate consent forms prior to the administration of psychotropic medications to children in department custody. Failure to document appropriate consent hinders the department's ability to ensure that these medications are dispensed appropriately in accordance with department policy.

**Child Protective Services Investigators Do Not Always Follow Investigation Policies or File Investigation Information in a Consistent Manner**

Child Protective Services cases were not always prioritized according to the severity of the case or completed by time deadlines. Information in paper files was sometimes inconsistent with the case information in the department's computerized system or no case information was in the computerized information system. The department has no viable basis for assessing compliance with department policies if case information is not complete, accurate and consistent.

**The Department Does Not Monitor Family Support Services Provided by Community Services Agencies**

Community services agencies provide Family Support Services (FFS) to help families solve problems that place children at risk of being placed in state custody. By not monitoring the children while these services are being provided, the ability of Child Protective Services staff to prevent children from entering state custody is impeded. Staff workload also increases since this staff has to respond to failed FFS interventions.

**The Department Does Not Document Reasons for Exemptions to the Federal Law Requiring a 15-Month Limit From the Date a Child Enters Custody to the Date a Petition Is Filed to Terminate a Parent's Rights**

The department should take steps to determine the reasons for delays in terminations of parental rights in cases where it was determined to be in the best interest of the child and take corrective action. The department should document this determination in the child's file. Timely termination of parental rights helps increase the chances of children finding permanent homes.

**Adoption Services Does Not Provide Adequate Post-Adoption Services to Prevent Disruption of Adoptions, Nor Does It Track Disruptions by Region**

Post-adoption services are needed to prevent disruptions and to address children's problems, especially when problems do not become apparent until the adoption is finalized. In addition, tracking disruptions (when the child does not stay with the adoptive family) can provide information the department can use to prevent future disruptions.

**The Department Does Not Monitor Recidivism at Its Juvenile Justice Facilities**

Recidivism measures the number of youth from the department's juvenile justice facilities who reenter state custody and the number of youth who enter the adult correctional system. The lack of information on recidivism hinders the department's ability to evaluate the effectiveness of its juvenile justice programs.

**The Department's Background Check Process for New Employees Needs Improvement**

The department does not have policies or procedures specifically outlining the background check procedures for new employees. The average time for receiving the background check results took longer than the 8-week pre-service training; therefore, an employee could have contact with a child before the department received the background check results.

**A Majority of Employees Interviewed Feel Pre-Service Training Is Inadequate**

Employees interviewed indicated that more specific training was needed, including training in the areas of permanency planning, paperwork, and entering data into computers.

**The DCS Central Office Does Not Maintain a Comprehensive Training Database and Is Therefore Unable to Monitor Each Employee's Training**

Without a centralized training database with consistent and detailed employee histories, the department cannot verify compliance with training requirements. Nor can it ensure that employees receive high-quality, job-relevant training.



### **The Department Does Not Collect All Performance Data Required by Its Strategic Plan**

The department does not obtain and track its performance measurements consistently and uniformly. Failure to routinely track the measurements within the Strategic Plan hinders the department's ability to ascertain progress on achieving its goals and may result in management making decisions based on incomplete and inaccurate information regarding department accomplishments.

### **There Is No Policy That Delineates the Title VI Complaint Handling Process**

The lack of a policy could hinder the department's ability to ensure all complaints are dealt with and could inhibit complaints because those wanting to complain may not know how to submit a complaint. Title VI of the 1964 Civil Rights Act requires all state agencies receiving federal money to implement plans to ensure that no person is discriminated against based on race, color, or national origin.

### **OBSERVATIONS AND COMMENTS**

The audit also discusses the following issues: the Brian A. Settlement Agreement and case manager job specifications.

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#### **Department of Correction** September 2003

#### **The Department Failed to Assess Liquidated Damages Against Health Care Providers for Contract Noncompliance**

The Department of Correction has failed to assess liquidated damages against vendors Correctional Medical Services and Mental Health Management for numerous instances of noncompliance with contract provisions. Allowing contractors to operate in noncompliance for significant periods of time without substantial consequences provides no incentive for efficient and effective operations.

#### **The Department Failed to Assess Liquidated Damages Against Corrections Corporation of America for Contract Noncompliance**

Pursuant to Sections 41-24-101 et seq. and 4-3-603(b), *Tennessee Code Annotated*, the Department of Correction contracts for correctional services at South Central Correctional Facility (SCCF) and for housing of state prisoners at Hardeman County Correctional Facility (HCCF). Corrections Corporation of America (CCA) manages both facilities. Despite numerous instances of noncompliance at SCCF and HCCF, the department has failed to assess liquidated damages against CCA. By allowing the contractor to fail to comply with agreed-upon terms without negative consequences, the department has not ensured that the state is getting the level of service it has paid for and that the citizens of the state, including the inmates and facility employees, are receiving the level and types of services deemed necessary by the state.

### **The Corrections Corporation of America Is Not Purchasing Inmate Uniforms From Tennessee Rehabilitative Initiative in Corrections as Required by Statute and Contract Provisions**

According to interviews and documentation obtained, it appears CCA is not purchasing the majority of its inmate uniforms from the Tennessee Rehabilitative Initiative in Corrections (TRICOR). When compared to other department facilities, CCA's inmate uniform purchases are significantly lower.

### **The Department Needs to Continue to Improve Pre-Release Services for Inmates**

Department Policy 511.02, Pre-Release Services, mandates that all department and privately managed institutions provide programming designed to facilitate an inmate's release from incarceration and community reintegration. Studies pertaining to recidivism indicate that educational, life skill, and parental programming help inmates readjust to life in the community, which may help keep the former inmates from committing new crimes and returning to the prison system. During fiscal year 2003, the department made several improvements in its pre-release program. These improvements include implementing the new Tennessee Bridges program, assigning full-time pre-release coordinators at 14 of the 15 correctional facilities, beginning the update of pre-release policies, and requiring coordinators to provide data on inmate participation in pre-release programs. Despite these improvements, however, the pre-release services provided by the Department of Correction still appear to be insufficient given the number of inmates who exit the system each year and the problems inmates face when attempting to readjust to life outside the correctional system.

## **OBSERVATIONS AND COMMENTS**

The audit also discusses the following issues: (1) the high rate of correctional officer turnover at department facilities; (2) the failure of some counties to submit Final Cost Settlements in a timely manner; (3) the lack of centralized monitoring of employee training; (4) the failure of some prisons to consistently adhere to all requirements of Health Services' Continuous Quality Improvement Program; (5) problems that led to the early replacement of West Tennessee State Penitentiary's security fence; and (6) delays in the selection of a new prison site. In addition, the audit discusses inmate classification and reclassification, inmate employment, and the collection of DNA samples from inmates.

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**Department of Health**  
October 2003

### **State Law and Departmental Rules Do Not Sufficiently Safeguard Access to Vital Records, Specifically Birth Certificates**

In 1993, the Tennessee General Assembly passed legislation (codified as Section 68-3-205[d][2][A], *Tennessee Code Annotated*) opening vital records and making them public. Since that time, access to vital records has become an issue because of national security concerns and the increase in identity theft crimes. According to Department of Health management, both the department and the U.S. Department of

State were opposed to opening the state's vital records in 1993. In addition, the National Association of Public Health Statistics and Information Systems (NAPHSIS), an association of state vital records and public health statistics offices, does not support open access to vital records. According to NAPHSIS, as of 2000, only 14 states had open access on either a state and/or local level to the birth certificates they archive. Open access means that virtually anyone can review birth records or purchase a copy of any birth certificate from issuing entities as long as they know the name and birth date of the person listed on the birth certificate.

**The Bureau of Alcohol and Drug Abuse Services Is Paying Some Agencies With Grant-Based Contracts Full Contract Amounts Even When the Agencies Do Not Meet Utilization Requirements**

The February 1998 performance audit of the Department of Health found that the Bureau of Alcohol and Drug Abuse Services had no standard rate of payment for alcohol and drug treatment and prevention services, and that the rates paid for those services varied widely depending on when the department first funded the bed or other services. Since that time, the bureau has taken steps to equalize reimbursement rates for services. However, weaknesses in the bureau's service reimbursement process remain, and as a result, some agencies that have not met service expectations have essentially been overpaid (relative to other agencies that did meet service expectations).

**Medical and Pharmaceutical Supply Information in the Department's Computer System Is Often Incomplete and/or Inaccurate**

The Department of Health's Bureau of Health Services uses a computer system called PTBMIS (Patient Tracking and Billing Management Information System) to coordinate with local health departments. PTBMIS compiles some medical information, generates bills, tracks drug and vaccine supplies, and provides information for reports to the state and federal government. During our audit work, we observed the department's on-site quality management reviews of 113 encounters in five counties. The types of PTBMIS-related problems reviewers identified included a service/procedure coded in PTBMIS to the wrong program, a procedure coded in PTBMIS but not documented in the paper file, a service/ procedure documented in the paper file but not coded in PTBMIS, the wrong diagnosis or procedure code in PTBMIS, test results not entered into PTBMIS, and financial information that was wrong or out-of-date. Because the billing system and pharmacy inventories are controlled through PTBMIS, it is a problem when the paper medical file and PTBMIS do not agree. If procedures performed are not coded into PTBMIS, they will not be billed for. If procedures are coded into PTBMIS and there is no written evidence they were performed, patients could be paying for services not rendered. If medications are not properly entered, billing may be affected, and supplies may not be properly tracked. Also, because management uses PTBMIS data to assess various aspects of

health service, erroneous or incomplete information limits the usefulness of PTBMIS data as a management tool.

**The Division of General Environmental Health Should Perform Quality Assessments of the Field Offices and Contract County Offices More Frequently**

Although the Department of Health's Division of General Environmental Health has a policy and process to perform quality assessments of field offices and contract county offices, the policy does not dictate the timing of the assessments, and the division has not performed those assessments as scheduled. Information obtained from such assessments could be beneficial in identifying problems and making improvements in the inspection process.

**OBSERVATIONS AND COMMENTS**

The audit also provides follow-up information regarding program monitoring in the AIDS Support Services and Maternal and Child Health Divisions and the Bureau of Alcohol and Drug Abuse Services. In addition, the audit discusses the following issues: bioterrorism response plans, the status of public health in Tennessee, and the Office of Minority Health.

**ISSUES FOR LEGISLATIVE CONSIDERATION**

The General Assembly may wish to consider amending Section 68-3-205, *Tennessee Code Annotated*, to restrict access to vital records and specifically require department personnel to request some type of documentation of identity.

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**Health Related Boards**

November 2003

**Despite Improvements, the Practitioner Complaint Resolution Process Continues to Be Lengthy and Inconsistent\***

Audit file reviews indicated that many open and closed cases took a long time to be processed. Although the division uses an information system to monitor the complaint process, there are problems obtaining the necessary reports for analysis. While the division has reduced the backlog of complaints, discipline still appears inconsistent in many cases. Serious disciplinary action was taken in few cases.

**Most Boards Don't Have Disciplinary Guidelines; Some Guidelines Appear Lenient\***

The boards of Alcohol and Drug Abuse Counselors; Dispensing Opticians; Electrolysis Examiners; and Professional Counselors and Marital and Family Therapists, and Clinical Pastoral Therapists do not have disciplinary guidelines. The guidelines for the Board of Osteopathic Examination do not include specific actions for disciplinary violations. While the Board of Medical Examiners' disciplinary guidelines are comprehensive, the range of penalties for major offenses appears to be too lenient for the frequency of occurrences.

**Alternative Dispute Resolution Case Results Are Not Always Documented, and Timeliness Should Be Improved**

With alternative dispute resolution (ADR), disciplinary cases are reviewed by a screening panel to determine whether a practitioner should be diverted from formal board action. Many of the ADR results for the Board of Medical Examiners were not recorded in the case files, and many of the cases exceeded timeliness benchmarks.

**Access to Accurate Public Information Continues to Be Inconsistent Among Boards\***

Anonymous calls by auditors to four boards about disciplinary actions taken against practitioners revealed that the amount of information and level of cooperation provided by the staff varied. Also, information on disciplinary actions on the Department of Health Web site was sometimes incomplete.

**No Background Checks for Licensure Applicants**

State law does not specifically require or authorize criminal background checks before granting licenses to practitioners. Practitioners are required to report any arrest and conviction information on their license application and practitioner profile.

**Several Boards Have Not Met Self-Sufficiency Requirements**

Current-year revenues generated from license fees collected by some of the health-related boards have not covered current year operating costs incurred in regulating the professions for more than two consecutive fiscal years. Some boards experiencing annual deficits have had cumulative surpluses from prior years that are used to cover the annual deficits. While this may allow the boards to remain self-sufficient, the boards may still be in violation of statute by running consecutive year deficits. Several boards raised license fees to address these deficits.

**Boards Have Not Used Their Authority to Assess Disciplinary Costs to Practitioners**

The Board of Medical Examiners and the Board of Osteopathic Examination have not always assessed costs to practitioners because of questions regarding the types of fees to assess and how the Office of General Counsel would determine its costs per case. The Division of Health Related Boards needs to work with the General Counsel to determine the costs for legal work. Also, in 2003, the General Assembly passed legislation granting all boards the authority to assess costs to practitioners.

**No Internal Audit Function for the Boards**

The Department of Health has not conducted internal audits on the Division of Health Related Boards or on individual boards since 1998. Internal audits can be beneficial by addressing areas of efficiency and effectiveness, identifying potential areas of fraud and abuse, and assessing the complaint investigation process.

### **Weaknesses in the Board Nominating Process**

State law requires all boards to have a public member and encourages the Governor to appoint at least one senior and one minority member. All six boards have a public member, but the Board of Osteopathic Examination does not have any minority members. Also, the Board for Professional Counselors, Marital and Family Therapists, and Clinical Pastoral Therapists does not have a senior member.

### **OBSERVATION AND COMMENT**

The audit also discusses the following issue: optician licensure.

### **ISSUES FOR LEGISLATIVE CONSIDERATION**

The General Assembly may wish to consider (1) amending *Tennessee Code Annotated* to require the boards to conduct criminal background checks for license applicants and (2) evaluating the boards that have not proven to be self-sufficient.

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#### **Health Services and Development Agency State Health Planning and Advisory Board** May 2004

#### **The State Health Planning and Advisory Board Has Failed to Develop a Comprehensive State Health Plan**

At the board's first meeting in January 2003, the board set a goal to complete the health plan in 18 months. However, 16 months after the board first met, it has only just begun to make any progress towards initiating the plan's development. Agency management and board and agency members believe there have been major obstacles to the development of the health plan including the late starting date of the board, difficulties in obtaining the quorum necessary for the board to meet, and a lack of overall focus. Without a current, comprehensive health plan detailing goals, objectives, standards, and criteria, the Health Services and Development Agency is hindered in making its decisions regarding certificates of need. In addition, the lack of a plan limits the ability of executive branch agencies (e.g., the Departments of Health, Mental Health and Developmental Disabilities, and Finance and Administration) to develop a health system that meets the needs of the citizens of the state and improves their quality of life.

#### **The Quality of CON Decisions May Be Negatively Affected Because the Criteria and Standards Being Used Have Not Been Updated and the Information Provided to Agency Members Is Not Always Current or Verified**

The criteria and standards on which certificate of need (CON) decisions are based have not been updated since 2000. In addition, information (self-reported by providers and compiled by the Department of Health) which is used for verifying applicant-provided information is not always verified or up-to-date. Similar issues were identified in prior performance audits. The 1990 audit of the Health Facilities Commission found that (1) the State Health Plan did not contain sufficient statements of goals, objectives, standards, and

criteria to adequately guide the commission in its CON decisions; and (2) applicant-provided information was seldom independently verified. The 1994 audit of the Health Facilities Commission and the Health Planning Commission found that the accuracy of applicant-provided information was not ensured and that the State Health Plan lacked strategies for achieving its goals in the broader context of health planning.

**The State Health Planning and Advisory Board Has Numerous Vacancies (Including Representatives of Consumers and the Elderly) Resulting From Resignations or Expired Terms**

As of March 2004, there were 11 vacancies (4 empty slots and 7 slots currently filled by members whose terms have expired) on the 34-member State Health Planning and Advisory Board. By law, the board must have a super majority of 22 members to constitute a quorum; therefore, the vacancies hinder the board's ability to conduct business, including the development of the State Health Plan. (See finding 1.) Four of the 11 vacancies are the result of resignations. Two of those positions have been vacant since April 2003; the two others have been vacant since January 2004. The remaining seven vacancies represent board members whose terms expired effective June 30, 2003, but who continue to serve because no reappointments or new appointments have been made for their positions.

**OBSERVATION AND COMMENT**

The audit also discusses the adequacy of actions taken to address conflict-of-interest issues that negatively affected the agency's predecessor, the Health Facilities Commission.

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**Department of Labor and Workforce Development and Related Entities**

March 2004

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**The Department Should Further Explore the Use of Direct Deposit or EBT (Electronic Benefits Transfer) Services for Its Unemployment Insurance (UI) Benefits Checks**

The department's Employment Security Division is responsible for administering the Unemployment Insurance program that provides weekly benefits to unemployed individuals who have lost their job through no fault of their own and have qualifying wages in the base period. Between September 1, 2002, and August 31, 2003, the department issued over 3.5 million checks, amounting to over \$731 million. Several other states' Unemployment Insurance programs already use direct deposit for their UI benefits checks, and some other Tennessee state agencies (e.g., the Departments of Human Services and Treasury) use direct deposit or EBT services for their clients. When asked about the possibility of using direct deposit for unemployment compensation benefits checks, Department of Labor and Workforce Development management expressed concerns about the cost and feasibility of the process. However, the department was unable to provide documentation supporting its concerns. In addition, the department had not formally evaluated the costs and benefits of using direct deposit or Electronic Benefits Transfer for unemployment insurance benefits.

**The Department Does Not Have a Formal, Written Conflict-of-Interest Policy for Its Board, Committee, Commission, and Council Members\***

This is a repeat finding from the January 2000 audit of the Department of Labor. At that time, we recommended that the department develop a formal, written policy regarding potential conflicts of interest by its board members. The department concurred and indicated in its response to the audit that it would develop a written policy and disclosure statement. No statute requires written disclosure; however, without a means of identifying potential conflicts of interest and discussing and resolving them before they have an impact on decisions, members could be subject to questions concerning impartiality and independence.

**The Labor Standards Division Needs to Be Consistent in Assessing Penalties and Needs Time Guidelines for Inspection Case Closure and Violation Correction\***

The January 2000 audit found that the Labor Standards Division lacked guidelines concerning penalty assessments and time frames for investigations and correction of violations. We recommended that the division establish specific guidelines for assessing penalties for violations of the child labor and wage regulation laws and specific time guidelines for the handling and closure of investigations and for the correction of violations, depending on their severity. Based on our work during the current audit, we found that the Labor Standards Division needs to be consistent when determining the amount of penalties to assess for violations of the child labor and wage regulation laws. In addition, the division needs written policies detailing time frames for investigation closure and correction of violations. Written guidelines could help ensure that penalties are assessed consistently and that violation correction time frames are applied consistently for similar violations. Guidelines regarding investigation time frames would help ensure that staff understand management's expectations and provide criteria for management in assessing program and employee performance.

**As Previously Noted in Our 2000 Audit, the Labor Standards Division Is Still Not Assessing Penalties (Which Were Authorized in 1996) for Wage Regulation Violations\***

During work on the 2000 audit, the division director stated that penalties had not been assessed because in most cases the employer immediately corrected the problem. Additionally, managers stated that the department's philosophy is to focus on achieving compliance with laws rather than punishing employers who do not comply. Auditors noted that this seemed to be a reasonable focus and that assessing penalties against unintentional, or even first-time, violators may be counterproductive. However, auditors recommended the department use its statutory authority to assess penalties in cases of repeat violators or employers who clearly understood the requirements and chose to ignore them. Management concurred in part with the finding and



stated that the Division of Labor Standards would make a concerted effort to more effectively utilize the penalty assessment authority granted by statute. Based on our review of a sample of wage regulation reports during the current audit, however, the division is still not assessing penalties for violations, even when the offenders are repeat violators.

**The Safe Employment Education and Training Advisory Committee Has Not Met in Five Years and Apparently Is No Longer Needed Because the Grant Funds Involved Are No Longer Available**

The committee's duties include making recommendations concerning occupational safety and health grant application procedures and criteria for grant approval; occupational safety and health grant recipients; and revocation of grants to recipients failing to comply with grant criteria. The committee is also responsible for receiving and processing occupational safety and health grant applications. Although the committee is mandated to meet at least annually, the last committee meeting was in October 1998. According to the administrator of the Workers' Compensation Division, the committee is not meeting (and is no longer needed) because occupational safety and health grant funds are not available and have not been available for several years.

**OBSERVATIONS AND COMMENTS**

The audit also contains follow-up information on nine findings from prior audits (seven from the January 2000 audit of the Department of Labor and two from the October 1997 audit of the Department of Employment Security). In addition, the audit contains follow-up information on seven observations and comments from those prior audits.

**ISSUES FOR LEGISLATIVE CONSIDERATION**

The General Assembly may wish to consider (1) terminating the Safe Employment Education and Training Advisory Committee because of its inactivity and the absence of a current need for that committee; (2) reviewing Section 4-3-1416, *Tennessee Code Annotated*, and clarifying the desired frequency for distribution of the sexual harassment rules/guidelines to the state's employers; and (3) deleting from statute the requirement that mine operators submit a mine map to the department.

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**Office for Information  
Resources (OIR)**  
March 2004

**The Information Systems Council (ISC) Has Met Only Twice Since March 2001**

Without the oversight that the ISC was intended to provide, OIR cannot establish and move on policy issues (short- or long-term) or must do so without ISC approval. The ISC also cannot periodically review, as required by statute, the overall effectiveness and efficiency with which the state's information systems network is managed.

**Management Cannot Provide Documentation That Would Support and Justify the Rates Charged by OIR for Equipment and Services**

OIR cannot document how most current and recent rates were established. This documentation is critical because part or all of OIR bills are passed on to federal granting agencies providing funding to state agencies.

**The Billing System Is Weak and Inadequate for Accurate Management Oversight**

Agencies state that OIR billings are confusing and inadequate for project management. OIR relies on the agencies to verify that the items they are billed for are correct.

**OBSERVATION AND COMMENT**

The audit also discusses the following issue: current status of ITPRO contract and contractor conversion.

**ISSUES FOR LEGISLATIVE CONSIDERATION**

The General Assembly may wish to consider amending Section 4-3-5501, *Tennessee Code Annotated*, to require the Information Systems Council to meet several times a year to fulfill its statutory responsibilities.

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**Department of Safety**  
April 2004

**As Noted in Audits Published in 1990 and 1997, Violations Are Still Not Posted Timely to Drivers' Records\***

The department's driver point system is designed to identify those drivers whose records reflect a continuous disrespect for traffic laws and a disregard for the safety of other persons on the highway. Points are assessed to drivers for moving traffic violations or for contributing to the occurrence of an accident. Because of delays in posting points for violations, the department may not be promptly identifying unsafe drivers, assessing points for driving violations, and taking action, when necessary, to suspend or revoke their driving privileges.

**Posting of Citations to Commercial Drivers' Records Is Hindered Because Dispositions Are Not Received in a Timely Manner From Courts\***

State law requires courts to notify the department of violations by holders of commercial driver's licenses within ten days of convictions relating to motor vehicle traffic control. Our review indicated that courts do not always meet this requirement. As a result, the department cannot ensure that all points are assessed against commercial driver's licenses in a timely manner and (in some instances) that licenses are suspended or revoked when appropriate.

### **It Is Unclear How the Commercial Vehicle Enforcement Division or the Tennessee Highway Patrol Ensure Adequate Coverage on a Statewide Basis 24 Hours a Day**

Department policy requires that the Commercial Vehicle Enforcement Division and the Tennessee Highway Patrol provide adequate coverage on a statewide basis 24 hours a day. Department policy also requires that the department adequately staff each division having commissioned officers with an appropriate workforce based upon an annual needs assessment of workloads and functions in order to ensure efficient and effective operations. Without workload assessment studies, the department cannot determine where and how much additional manpower is needed to maintain appropriate coverage and ensure the most efficient and effective use of patrol officer resources.

### **Verification of the Successful Completion of the Cooperative Driver Testing Program Is Lacking**

The cooperative driver testing program was designed to help students obtain the skills needed to obtain a non-commercial driver's license. It is offered to public school systems, public institutions of higher learning, and commercial driver training schools with driver education courses for non-commercial driver's licenses. Students who meet the testing standards of the program are exempted from the knowledge and/or driving skills examinations required for a driver's license. Although students are required to present a Third Party Driver Examiner Testing certificate to the department, the department does not verify with their instructors that they have met these standards. Failure to verify that each individual submitting a certificate has successfully completed the driver education program may result in individuals falsely claiming to have met the testing standards of the program.

### **Formal Road Skills Training for Examiners Is Lacking**

Driver's license examiners have not received training in conducting the road skills examination since November 1999. The purpose of administering a road skills test to driver's license applicants is to evaluate the applicant's knowledge of traffic regulations and ability to safely operate a motor vehicle. Without formal training, the department cannot ensure that the road skills test is being administered consistently throughout the state.

### **The Department Does Not Have a System in Place to Track School Bus Inspections**

State law requires the department to inspect public school buses at least annually to determine whether they can be used to safely transport school children. School bus inspectors submit inspection forms to the central office, but the information in these forms is not summarized in a central database. Without a tracking system, the department cannot determine whether buses have been inspected timely or at all.

### **The Commercial Vehicle Enforcement Division Does Not Have an Organized Plan to Assess Terrorism Threats During Truck Inspections**

The department uses procedures issued by the federal government for responding to potential or actual terrorist threats or incidents. The department is impeded in providing information to the FBI about terrorist threats concerning trucks because it has not implemented a formal process to detect such threats. Although the division has cooperated with other agencies in safety and security inspections at weigh stations, these inspections do not appear to be part of a systematic effort to deter terrorism.

### **Successful Completion of Handgun Safety Courses at Approved Handgun Safety Schools Is Not Verified**

State law requires applicants for handgun permits to submit proof of successful completion of a department-approved handgun safety course. The department relies on a certificate from the school for proof of the successful completion of the handgun safety course. When a permit applicant presents a certificate, department staff determine whether the school and instructor were approved at the time of the certificate's issuance. However, the department does not verify with the handgun safety school whether the individual has successfully completed the course. Failure to verify that each individual applying for a handgun permit has successfully completed an approved course may potentially result in individuals falsely claiming to have successfully completed such a course through a fake certificate.

### **It Is Unclear Whether Handgun Permit Application Timelines Established by *Tennessee Code Annotated* Are Being Met or Whether a Backlog Exists\***

The department is required to issue handgun permits within 90 days from the date the department receives the application. The department's method for tracking permit applications is inadequate for determining the existence and extent of a backlog in order to determine compliance with the 90-day requirement and prioritize applications accordingly.

### **The Department Continues to Have Large Backlogs in the Processing of Title and Registration Applications as Previously Noted in the 1997 Performance Audit\***

Vehicle owners must have a title and registration in order to operate their vehicle. For fiscal year 2003, the average monthly backlog of title and registration applications waiting to be processed was over 60,000 applications. The department does not track application processing times.

### **The Implementation of TRUST Continues to Be Beset by Many Delays and Other Problems, Resulting in Potential Cost Overruns**

In 1999, the department began development of the Title and Registration User System of Tennessee (TRUST) to improve title and registration application processing. There are several areas of concern:

adequacy of the funding of the system's operational costs, the number of sites counties will need, and missed deadlines for completing the project.

**Weigh Stations Continue to Have Substantial Amounts of Downtime\***

The hours of downtime (when scales are closed) have increased since the 1997 performance audit. Downtime impedes the department's ability to enforce weight and size regulations, and collect revenue through assessments (a tax paid to the state for vehicles with weights or lengths greater than the registered amount).

**Security Measures at Driver's License Stations Need Improvement**

The security measures at driver's license stations vary widely. Most stations do not have security systems, fire alarms, or safes although most did have either secure file cabinets or locked supply cabinets available for the storage of sensitive material and money. Strengthening security measures would help better protect persons and property.

**The Department Does Not Assess the Quality of Service at Driver's License Stations\***

The department does not measure service or wait times or track complaints. Although the department tracks customer volume, it does not use this information to formally evaluate staffing needs and allocate staff accordingly. Therefore, the department's ability to identify where customers have lengthy delays is limited and resources may not be allocated according to stations' needs.

**Delays in Accident Postings Have Increased Significantly\***

State law authorizes the department to analyze accident reports to determine the cause of highway accidents. For October 2002 through September 2003, the department took, on average, 131 days to post accidents to drivers' records, up from an average of 48 days in 1996. Delays in posting this information hinder the department's ability to analyze this information and use it in accident prevention programs.

**The Department's Training Information System Is Cumbersome and Does Not Allow Adequate Monitoring of Each Commissioned Officer's Training, Which Is Incomplete in Several Cases**

Without a comprehensive, user-friendly training database with consistent detailed employee training histories, the department cannot document compliance with training requirements. Nor can it ensure that each commissioned officer receives high quality, job relevant training.

**The Tennessee Law Enforcement Training Academy Did Not Evaluate the Adequacy of Fees for Fiscal Years 2002 and 2003**

The academy attempts to recover between one-third and one-half of the costs of training through fees charged for tuition. Without a documented analysis and evaluation of training fees, the academy cannot determine whether it is recouping an appropriate amount of the costs.

## ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider amending state law to require county clerks to submit title and registration application data in a standardized format to reduce errors, and to require county clerks to implement the TRUST system as it becomes available.

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### **TennCare**

#### **Administrative Appeals**

For the Period February 24, 2003,  
Through March 31, 2003

### **ANALYSIS AND CONCLUSIONS**

#### **Inconsistent Application of Policy/Lack of Policy in Some Areas and Inconsistencies Regarding Appeal Time Frames**

During our review, we identified areas in the appeals process where policy was not followed. In some instances, management specifically instructed staff to disregard established policy. We also identified areas in which management needs to establish and implement additional policies to address weaknesses in the administrative appeals process. In addition, we noticed that language in the TennCare rules which describes the time frame for submitting an appeal is not consistent with actual practice.

#### **Untimely Processing of TennCare Administrative Appeals (Time Analyses and Backlogs/Delays)**

Based on our analyses, TennCare is not processing administrative appeals in a timely manner due to a number of reasons. Additionally, by not processing appeals in a timely manner, TennCare is not complying with federal regulations and is also paying to provide interim coverage until backlogged appeals are resolved.

#### **Inadequate Tracking of TennCare Administrative Appeals (Tracking Systems and Recording Appeal Information)**

TennCare does not have the ability to track appeals from the date an appeal is received until its final resolution. Furthermore, tracking systems used by the various units involved in processing administrative appeals are not integrated, making it difficult to obtain and analyze appeals data.

#### **Scheduling Appeals for Hearing**

We believe that a significant number of applicants/enrollees scheduled for a hearing do not want a hearing, even though they do not complete a form declining a hearing. TennCare does not adequately discern if an applicant/enrollee actually wants to go to a hearing. As a result, a number of appeals that are scheduled for a hearing may be unnecessary and are, therefore, burdening the system, creating backlogs and untimely resolution of cases and negatively affecting the OGC's ability to track cases. In addition, withdrawn and dismissed appeals cost the state money.

#### **No Follow-up on Appeals Sent to the Department of Human Services**

The Bureau of TennCare has not followed up with DHS to ensure that appeals sent to the Department of Human Services have been addressed.

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**Tennessee Board of Regents**  
March 2004

**Tennessee Technology Center Central Office Integration of Long-Range Plans and Program Plans Can Be Improved**

Tennessee Technology Center five-year strategic plans do not always address the program standards. Program plans are required to address the three program standards relating to program completion rates, placement rates, and student-to-faculty ratio. Also, the long-range plan objectives do not always specify performance targets or implementation dates.

**The Tennessee Board of Regents Does Not Have an Audit Committee**

The board needs to create a system in which upper management, including internal audit, can easily bring issues to the attention of the board, and in which board members assume an active oversight role in the activities of the central office. The presence of an audit committee could encourage the reporting of questionable activities and should promote greater fiscal responsibility and ownership of fiscal matters with management at the central office and the board.

**OBSERVATIONS AND COMMENTS**

The audit also discusses the following issues: articulation, capital maintenance, remedial programs, program accreditation, persistence-to-graduation rate, low-producing academic programs, and the monitoring of low-producing vocational technology programs.

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**Tennessee Bureau of Investigation**  
April 2004

**The Bureau Does Not Have Original Jurisdiction to Enforce Sex Offender Registration and Can Update Information in the Sex Offender Registry Only When the Information Is Supplied by the Offender**

Despite the popular misconception that the bureau enforces sex offender registration because it is responsible for maintaining the sex offender registry, the bureau does not have such statutory authority. Nor does the bureau have the statutory authority to correct information in the registry it has discovered to be erroneous unless the sex offender informs the bureau.

**There Are Conflicts Between Statutes and Between Statute and Bureau Practice Regarding Fees Charged for Non-Criminal Fingerprint-Based Background Checks**

According to one statute, the fee amount for background checks is fixed by the FBI; however, the specific fees listed in another statute are not the FBI rate billed to the bureau. Also, the bureau does not collect all required fees for electronic fingerprinting services.

**The Bureau Does Not Know the Disposition of Most Arrests Since 1995**

In the bureau's criminal history database, of 1,958,781 arrests since 1995, 77% lack a case disposition. In only 454,906 arrest cases is the final disposition known.

**The Bureau Is Not Adhering to Internal and Federal Policies Regarding the Frequency of Data Integrity and Compliance Audits of Agencies' Tennessee Incident Based Reporting System (TIBRS) Data and Tennessee Information Enforcement System (TIES)**

**Agencies**

Fifty-three percent of a sample of TIBRS-certified agencies and 10% of a sample of TIES agencies had been audited or were scheduled (or not scheduled) to be audited such that the time period between audits was or would be greater than the internal and federal policy of biennial audits.

**OBSERVATIONS AND COMMENTS**

The audit also discusses the following issues: an annual crime report; laboratory evidence processing times; the statutory number of fingerprint sets to send to the TBI; salaries of special agent criminal investigators and forensic scientists.

**ISSUES FOR LEGISLATIVE CONSIDERATION**

The General Assembly should consider revising *Tennessee Code Annotated*, Title 40, Chapter 39, to specifically assign enforcement authority regarding sex offender registration to the bureau or other designated agency.

The General Assembly may wish to consider revising Section 8-8-201(35)(A) and Section 8-4-115(c)(1-4), *Tennessee Code Annotated*, to reflect the advent of and growing use of electronic submission of criminal fingerprint cards. Distinctions need to be made for the law enforcement agencies submitting fingerprint cards electronically as a second set of fingerprints is no longer needed because the first electronic copy can be copied to the FBI.

The General Assembly may wish to eliminate the differences between Sections 38-6-103(d)(1)(C) and 38-6-109(d), *Tennessee Code Annotated*, regarding the fees charged by the state for federal non-criminal fingerprint background checks and create a fee structure reflecting the shift from paper to electronic fingerprint submission and its subsequent effect on the bureau's workload.

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**The Department of  
Transportation's  
Consultant Evaluations  
and Construction Project  
Administration**  
March 2004

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**Several Divisions Are Not Complying With the Department's Policy for Consultant Evaluations, and the Policy Needs to Be Improved**

Department policy requires staff to evaluate all consultants on the timely completion of work, conformity with contract cost, and quality of work, but not all consultants have been evaluated. Also, evaluations are not always made available to staff in other divisions who may work with the consultants or consider them for future work.



**The Department Should Analyze Data From the Construction Process to Identify Areas in Which to Strengthen Controls, Improve Timeliness, and Control Costs**

To minimize construction time and costs, the department should analyze and use information available to identify trends and areas of improvement. Identifying trends and systematically evaluating causes for cost increases could result in cost-saving measures for future projects.

**OBSERVATIONS AND COMMENTS**

The audit also discusses the following issues: emergency purchases and bid analysis.

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**Waste and Abuse**

The Waste and Abuse section, organized near the end of calendar year 2002, is focused on looking at waste and abuse or the potential for waste and abuse. According to *Government Auditing Standards* (the Yellow Book), "Abuse is distinct from illegal acts and other noncompliance. When abuse occurs, no law, regulation, contract provision or grant agreement is violated. Rather the conduct of a government program falls far short of societal expectations for prudent behavior." The section produces special reports highlighting areas where state agencies have not acted in the best interest of the state. The special reports are generally briefer than our audit reports. Members of this section look at issues with only one or two objectives instead of the more comprehensive scope addressed in traditional performance audits, but often cover the same issue in numerous state agencies. We place a premium on flexibility. Topics for the Waste and Abuse section projects may be originated by any source, including the Comptroller of the Treasury, the Director of State Audit, management and staff of any division of the Comptroller's Office, a legislator, someone in another part of state government, or someone outside of state government.

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**Issues Related to the State  
Travel Agency**  
July 2003

For the last twelve years, the Department of Finance and Administration has contracted for travel services. The current contract is with World Travel Service, Inc., based in Knoxville, and has a term from November 1, 2002, to October 31, 2004. The contract is renewable, annually, up to a maximum of five years. The previous contract was with Wright Travel Agency, Inc., in Nashville.

Over a period of about five years, airlines gradually reduced the commission paid to travel agencies and by April 2002, eliminated all commissions. At that time, Wright Travel Agency, in accordance with the contract, implemented a \$15 per ticket fee to be paid by ticket purchasers. In light of the changes in the industry, the state decided to rebid the travel agency contract rather than renew the current one due to expire July 31, 2002. Following evaluation of the proposals, the state decided to award the contract to World Travel Service, Inc. Wright Travel, the first runner up, protested the decision, saying that World's proposal did not meet the technical requirements for on-line

booking. On August 21, 2002, the Commissioner of the Department of Finance and Administration “determined that Wright Travel Agency’s protest should be denied.” The contract with World Travel began November 1, 2002.

The Department of F&A has decided to pay a travel agency \$20 per ticket to centralize airline ticket purchases and billing, to have assurance that the lowest-priced ticket is purchased (as required in the contract), and to receive regular reports of travel purchases.

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**Issues Related to the  
Shelby County Operations  
of the Department of  
Children’s Services**

November 2003

This report, the result of a request from the House Children and Family Affairs Committee, is a follow-up investigation to the July 9, 2003, report by the Department of Children’s Services (DCS) regarding the deaths of numerous children in Shelby County. Committee members were concerned about the possibility of a department cover-up relating to the facts or circumstances of these deaths, or of other related inappropriate actions by department staff.

We found that DCS performed a thorough and complete review of the deaths and their conclusions appear adequately founded. There is no evidence that came to their attention or to our attention that supports a cover-up relating to the deaths or any other related inappropriate actions by department staff. However, there are a number of other issues in the Shelby County operations that DCS management needs to address.

## **Special Investigations and Information Systems**

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**Glen McKay, Ph.D., MBA, CIA, CFE, CISA, CGFM**  
**Assistant Director**

Authority to conduct special investigations is provided in part by Sections 8-4-201 through 8-4-208, *Tennessee Code Annotated*. The Special Investigations Section gathers information and evidence resulting in prosecutions and recovery of funds and coordinates the efforts of other agencies involved in the investigation. The investigators assist local district attorneys general, Tennessee's Office of the Attorney General, the Office of the United States Attorney General, and the Tennessee Bureau of Investigation.

Investigative reviews are initiated as a result of information discovered during audits by the Department of Audit and through information from individuals or other departments and agencies. The matters investigated during the fiscal year ended June 30, 2004, ranged from embezzlement of public funds to abuse of public resources. Investigations were completed on matters at the state level as well as matters at the local level. Investigators often found that losses were incurred as a result of weak internal control or ineffective management.

Our investigative reviews resulted in the recovery of \$3,156 and annual leave withholdings of \$10,225 during the fiscal year 2004. Furthermore, based upon the special report on UT, a negotiated severance package totaling \$422,956 was withheld from the former UT president. As a result of the exposure of improper activities, one state employee resigned.

Since October 1983, the Department of Audit has provided a toll-free hotline for reporting fraud, waste, and abuse of government funds and

property. Periodicals throughout Tennessee publish information to alert citizens to the hotline and encourage them to call (800) 232-5454 to report wasteful, inefficient, or fraudulent activities. In addition, agencies receiving community grant funds are required to display in a prominent place signs calling attention to the hotline. Since its inception, the hotline has received 9,737 calls, including 535 calls between July 1, 2003, and June 30, 2004. Of the 535 calls, 183 concerned allegations of fraud, waste, or abuse. The substantive calls—those relating to fraud, waste, or abuse—concerned a wide range of entities, including municipalities, counties, state agencies and departments, and federal agencies and departments. A more detailed analysis is below. Substantive calls are investigated by the Department of Audit or referred to the appropriate state agency or program.

Of the 183 calls referred for action, responses have been received on 157, and these are considered closed. The remaining 26 continue to be considered open.

The remaining 352 calls have not been acted on because they were either repeat calls or were not relevant to the purpose of the hotline. Calls in the latter group include wrong numbers, hang-ups, general inquiries about the hotline, and requests for service provided by other agencies, such as tax assistance. Where applicable, the callers are referred to the appropriate agency or department that can provide assistance.

<b>Results of Hotline Calls</b>	The following are summaries of the results of the hotline calls upon which corrective action was taken by the subject agency for the year ended June 30, 2004.
<b>County Audit—Conflict of Interest</b>	The caller alleged that two county commissioners improperly contracted to use and maintain industrial park land. Upon notification of the conflict, the commissioners were relieved of the contract. An interim audit finding was developed and reviewed with the County Mayor and Chairman of the Industrial Park.
<b>County Audit—Improper Payment</b>	The caller alleged that an employee of the sheriff's department was being paid by the highway department. An audit finding has been discussed with county officials.
<b>County Audit—Road Blockage</b>	The caller alleged that a county road was blocked. The road in question is on the county's road list but is not being properly maintained. An audit finding has been developed regarding the county's failure to perform maintenance on the road.
<b>County Audit—Work Release</b>	The caller alleged that work release crews were not doing the job that they were assigned. Allegations were unsubstantiated, but several administrative and accounting weaknesses were found concerning the county's litter grant program. An audit finding will be in the next audit report.

<b>Education— Free Lunch Abuse</b>	The caller alleged that a student was receiving free school lunches although the student was not eligible. The student became a full-paid (no benefits) student.
<b>Environment and Conservation— Improper Solicitation</b>	The caller alleged that a private business was soliciting business at a class conference. The department found that business did not promote itself but did attach business cards to class materials. All classes conducted by private consultants will now carry a disclaimer that the department does not endorse or promote the private consultant's business.
<b>Environment and Conservation— Vehicle Abuse</b>	The caller alleged the misuse of a state vehicle. The employee to whom the vehicle was assigned admitted taking his child to school in the state vehicle. The department advised him to stop any personal use of the vehicle or disciplinary action would be taken.
<b>Health—Cats in Courthouse</b>	The caller alleged cats kept in a courthouse to keep rats away were negatively impacting allergic clients and staff. Cats were removed from general public areas.
<b>Health—Charges at Free Clinic</b>	The caller alleged that she felt she was wrongfully charged for a service she thought was free. The department determined that services provided were not free but could be misinterpreted to be so. The department instructed health department to clarify procedures.
<b>Health—Failure to Give Shots</b>	The caller alleged that health department failed to give grandchildren second flu shot in a two-shot series. Due to flu outbreak, health department was not able to give a second shot. The Department of Health changed its guidelines to allow holding of second inoculations for as many second inoculation children as possible.
<b>Health—Flu Shot Administration</b>	The caller alleged that she was not given a flu shot, but family members of health department workers were. The allegation was confirmed, but guidelines allow the process to protect health care workers. A policy directive to prevent future problems was developed.
<b>Health—Long Wait</b>	The caller alleged that visit to health center required excessive wait time. Staff attended customer service retraining classes.
<b>Health—Long Wait</b>	The caller alleged that health department was inefficient in providing EPSDT physicals. Scheduling changes were implemented to streamline the EPSDT physical process.
<b>Health—Long Wait</b>	The caller alleged that visit to health department required excessive wait time. A letter of apology was given to the caller.
<b>Health—Long Wait for Shots</b>	The caller alleged that niece was required to wait excessive amount of time for shots. The department instructed staff to be aware of patients when delays are caused by lack of staffing. The department contacted complainant and apologized for wait.

<b>Health—Misuse of Funds</b>	The caller alleged program misused funds for services that were not provided. Program is now under directives to increase service utilization based on number of clients served.
<b>Human Services—Food Stamp Fraud</b>	The caller alleged that an individual receiving food stamps was not reporting wages. A claim has been pended to recover any stamps issued.
<b>Human Services—Food Stamp Fraud</b>	The caller alleged that an individual was claiming on her application that her spouse was not living with her when he actually was. A claim for overpayment was prepared.
<b>Human Services—Food Theft</b>	The caller alleged that food was being diverted from clients by staff members. Excess food will no longer be given away but will be delivered to the local Community Services Agency.
<b>Human Services—Missing Child Support Payments</b>	The caller alleged that she did not receive her child support payments in a timely manner. It was discovered that a payment had not been issued to her. The caller was issued the missing payment.
<b>Human Services—Unauthorized EBT Card</b>	The caller alleged that another person was using the EBT card of a recipient who was in jail. The EBT card was cancelled. The department was unable to prove who used the card.
<b>Human Services—Unsuitable Daycare Employee</b>	The caller alleged that a daycare employee was unsuitable for the position. Employee is no longer employed by the daycare center.
<b>Human Services—Unwanted EBT Card</b>	The caller alleged that she received an unwanted EBT card. The card was recovered and sent to the intended recipient.
<b>Mental Health—Inefficient Program</b>	The caller alleged payment of teachers' services that were not needed. The department decided to close the program effective June 30, 2004.
<b>Mental Health—Treatment Program</b>	The caller alleged that treatment program was not aggressive enough. The department put the caller on an intense case management services waiting list and referred caller to a program that prepares individuals for employment.
<b>TennCare—Inappropriate Referral</b>	The caller alleged that he was inappropriately referred to the emergency room rather than being allowed to see his primary care provider. It was found that there was a breakdown in communication between the caller and the physician's staff. A new appointment was made.
<b>Transportation—Access to Transportation Van</b>	The caller alleged that van driver would not let her stand on wheelchair ramp to board van. A boarding wheelchair was purchased. The department required agency to provide workshop on customer relations.
<b>Transportation—Driver Failed to Pick Up Timely</b>	The caller alleged driver failed to pick her up timely from doctor's appointment. The driver received additional training in customer service and was given a written reprimand.

<b>Transportation—Exposure by Rest Area Attendant</b>	The caller alleged a rest area attendant was exposing himself in the ladies restroom. The department determined that the attendant did not expose himself but did not follow procedure for locking the restroom when cleaning it.
<b>Transportation—Improper Use of State Funds</b>	The caller alleged improper use of state funds. The caller's allegations were not substantiated, but review did identify control weaknesses and an apparent overpayment of approximately \$26,000.
<b>Transportation—Vending Refund</b>	The caller alleged a rest area vending machine did not return money. The department sent caller a refund form.

**Table 1: Analysis of Substantive Hotline Calls**

<u>Agency Involved</u>	<u># of Calls</u>	<u># Responded</u>	<u># Outstanding</u>
<b>Local Government</b>			
Municipal Audit	10	4	6
<b>County Government</b>			
County Audit	21	20	1
<b>State Government</b>			
Human Services	50	46	4
Health	25	25	0
State Audit	12	12	0
Education	5	5	0
Mental Health and Developmental Disabilities	7	5	2
Finance and Administration			
TennCare	4	2	2
Mental Retardation Services	5	4	1
Transportation	11	10	1
Commerce and Insurance			
Consumer Affairs	4	4	0
Aging	3	2	1
Board of Professional Responsibility	2	0	2
Children's Services	5	5	0
Environment and Conservation	7	6	1
Tennessee Bureau of Investigation	1	1	0
Tennessee Housing Development Authority	1	1	0
Administrative Office of the Courts	1	1	0
Revenue	2	0	2
Tennessee Corrections Institute	1	0	1
Court of the Judiciary	1	0	1
Agriculture	1	1	0
Board of Regents	1	1	0
District Attorney Generals Conference	1	1	0
<b>Federal Government</b>			
Social Security Administration	1	0	1
Housing and Urban Development	1	1	0
<b>Total</b>	<b>183</b>	<b>157</b>	<b>26</b>

<b>Special Investigations</b>	<p>The Special Investigations Section's contribution to the state is significant in that the section exposes abuses of public property and funds and, when possible, aids in the recovery of funds lost through illegal activities. Furthermore, as a result of our special investigative reviews, agencies that have been the victims of abuse are able to develop better controls to prevent, or at least deter, future occurrences of fraud, waste, or abuse.</p>
<b>Results of Investigations</b>	<p>The following are summaries of the results of the special reports released during the year ended June 30, 2004.</p>
<b>University of Tennessee Review of Issues Related to the Presidency of Dr. John Shumaker</b> October 2003	<p>In late June 2003, local media in Knoxville, Tennessee, questioned the use of the University of Tennessee's (UT) airplane by UT's then-president, Dr. John Shumaker. On July 2, 2003, Dr. Shumaker sent a letter to state senator Jerry Cooper stating that he had made a request for an audit by the Comptroller's Office of the use of the UT plane. The letter was copied to the Comptroller's Office and a number of other individuals. On July 15, 2003, Mr. Clayton McWhorter, vice chairman of the UT Board of Trustees, requested that UT's audit and consulting services office (internal audit) conduct a review of Dr. Shumaker's travel and other transactions initiated by or related to the Office of the President.</p> <p>On August 15, 2003, the internal audit staff issued their report entitled, "The University of Tennessee, Office of the President, Special Review." The report detailed the internal auditors' findings with regard to several issues relating to Dr. Shumaker's activities as president from the commencement of his presidency on June 1, 2002, to June 30, 2003. On August 21, 2003, Mr. Mark Paganelli, UT's internal audit director, presented the results of the internal audit review before the legislature's Fiscal Review Committee. At this hearing, Mr. Paganelli and other UT officials gave testimony under oath. Further testimony was given under oath by UT officials at a subsequent Fiscal Review Committee hearing on September 4, 2003.</p> <p>The Division of State Audit commenced its review of Dr. Shumaker's activities upon receipt of a copy of Dr. Shumaker's July 2, 2003, letter to Senator Cooper.</p> <p>Dr. Shumaker submitted his resignation by letter to Governor Phil Bredesen, effective August 8, 2003.</p> <p>The primary findings of the review are the following:</p> <p><b>Contract With Mr. Charles Fishman</b></p> <p>The contract with Charles Fishman, attorney, was initially a verbal contract and was not memorialized in writing until later. With regard to the characterization of the contract as one for legal services, if that is true, the issues related to practicing law without a license are raised.</p>



On the other hand, if the contract was not for legal services, it did not qualify for the exception to the bid requirement.

An inadequate amount of professional research and due diligence was performed on the front-end of the project. As a result, UT expended more funds than would have been necessary if the project had been adequately researched at its inception.

Furthermore, University officials had numerous opportunities to question the project but did not because they did not want to oppose Dr. Shumaker's wishes.

### **The Presidential Search Process and Appointment of Administrators**

The review did not substantiate Lucy Shumaker's (Dr. Shumaker's former wife) allegation regarding Dr. Shumaker receiving the interview questions in advance.

Korn-Ferry's search appeared adequate and the search committee appeared to act reasonably in its reliance on the efforts of Korn-Ferry.

As the candidate from the private search, Dr. Shumaker received preferential treatment. Before announcing his candidacy, Dr. Shumaker requested assurance that he would be selected as the next UT president. The presently available information suggests that he received some form of assurance. Dr. Shumaker, as the candidate from the private search, also received the benefit of meeting with board members to discuss a compensation package prior to the conclusion of the process. Furthermore, Dr. Shumaker had Mr. Funk, in his role as search coordinator, to assist in communications with search administrators.

From presently available information, it appears that during the search process Dr. Shumaker established a working relationship with both search administrators and approached them about executive positions after his acceptance of the presidency at UT. In the hiring of Dr. Cathy Cole, Executive Assistant, it was determined to be proper for Dr. Shumaker to be granted an exception to the hiring procedures. From Steve Leonard's e-mails and letter, Mr. Leonard, Executive Vice President, certainly took on the role of an advisor to Dr. Shumaker, even after the search had concluded, including advising him on the timing, possible adversarial board members, and even a strategy to have board members convince him to join the university staff. However, Mr. Leonard stated that these communications were not formal and stated he was simply exploring his job opportunities at that time. Mr. Leonard's position was advertised, and the search process for the Executive Vice President position appeared to have been conducted appropriately. In both cases it would appear that Dr. Shumaker had an interest in their abilities. This review did not

uncover any conclusive evidence that either Dr. Cole's or Mr. Leonard's appointment was improper.

### **Credit Cards**

The UT treasurer's office, in an effort to accommodate Dr. Shumaker, authorized the use of an American Express credit card that was billed directly to and paid by UT without implementing clear written procedures to establish controls over the card.

Dr. Shumaker failed to provide the necessary receipts for determining business and personal charges on the American Express card, and the UT treasurer's office failed to take appropriate action when informed of this. As a result, UT paid a total of \$4,964.92 for Dr. Shumaker's personal charges. Dr. Shumaker did not reimburse UT for most of these charges until they were brought to his attention by the internal auditors.

The American Express statements were not reconciled with Dr. Shumaker's incidental expense claims due to a breakdown in the reconciliation process, and UT overpaid Dr. Shumaker a total of \$246.87 in per diem.

Due to an apparent misunderstanding on the part of UT's corporate travel manager, Dr. Shumaker received authorization to stay in hotel rooms that exceeded the limits set forth in UT's travel policies. As a result, Dr. Shumaker's hotel rooms exceeded the allowable rate by \$3,354.86.

### **Lack of Controls**

\$493,137 was spent on renovations and items for the executive residence at the request of Dr. Shumaker. The scope of the renovations was not determined at the outset and the projects were completed piecemeal, thereby avoiding the necessary approvals from the UT Board of Trustees, the Tennessee Higher Education Commission, and the State Building Commission. In addition, the necessity of the renovations and some of the items that were purchased for the house were questionable. Budgets were not established for the renovations and items purchased, and UT's management did not question the renovations and purchases or attempt to set limits on the spending.

UT spent \$319,346.63 for entertainment and receptions during Dr. Shumaker's tenure as president. Dr. Shumaker admitted that some of the expenses were excessive, but he stated that he was told that no budget existed for these events. Several of the events appeared to involve primarily UT employees rather than being directed at potential donors to the school.

### **Misrepresentations by Dr. Shumaker**

When questioned by the internal auditors as to why Dr. Carol Garrison's name appeared on his hotel bill from San Antonio, Texas, Dr. Shumaker initially stated that he had given his room to Dr. Garrison for her convenience at a conference they were both attending, and he stayed with friends. Dr. Shumaker later admitted that he and Dr. Garrison actually shared the hotel room and arranged with the hotel to split the bill, and that he initially misrepresented the situation in an effort to protect Dr. Garrison.

Dr. Shumaker stated in his initial interviews with the internal auditors and state auditors that he provided all receipts associated with his credit card charges to his secretary. However, when confronted with statements from UT staff that he routinely failed to provide necessary receipts, he stated that he was actually sloppy with receipts and did not always obtain receipts or keep them or turn them in.

When the news media requested copies of Dr. Shumaker's calendar records in the spring of 2003, Dr. Shumaker instructed his secretary to make changes to his calendar that included material omissions of trip information that would have been unfavorable to him. The altered calendar records were then provided to the news media and to the internal auditors on the pretense of being accurate and complete records.

Dr. Shumaker initially stated that all of his plane trips were primarily business related and any personal travel was incidental to his overall business travel. However, review and analysis of his travel indicated that on at least four occasions, trips were wholly or primarily personal in nature, and any business aspects of the trips were incidental.

### **Board of Trustees**

While the Board members do not appear to have had any knowledge of Dr. Shumaker's questionable activities or to have condoned his activities, several members of the university's upper management appear to have known about some of Dr. Shumaker's questionable activities but failed to take effective action, including notifying the Board of Trustees.

The presence of an audit committee would provide upper management a means to report questionable activities. Such a presence would encourage the reporting of issues by upper management and should serve as another control over the president's discretion.

### **The University of Tennessee Foundation**

Without appropriate oversight, the University of Tennessee Foundation can serve as a technically legal vehicle to divert public funds and circumvent laws providing for accountability and controls over public funds and assets.

**Tennessee Board of Regents  
Tennessee State University  
Review of Issues Related to  
Dr. James Smith's Tenure  
as Athletics Director at  
Tennessee State University**  
April 2004

On June 1, 2001, Dr. James A. Hefner, President of Tennessee State University (TSU), terminated the employment of Dr. James L. Smith, TSU's Athletics Director, with 30 days' notice. On June 4, 2001, an attorney representing Dr. Smith met with the Comptroller of the Treasury and members of his audit staff regarding Dr. Smith's allegations relating to possible misappropriation of funds and mismanagement at TSU. On June 7, 2001, three state representatives held a news conference on TSU Athletics and issued a press release. In their press release, the representatives called upon the Tennessee Board of Regents, the Tennessee Higher Education Commission, the Office of the Comptroller, and possibly the Tennessee Bureau of Investigation, to review allegations regarding Dr. Smith's inability to lead the Athletics Department and the turnover of athletics directors at TSU. On June 7, 2001, the Chancellor of the Tennessee Board of Regents requested that the Office of the Comptroller undertake a review of TSU's Athletics Department. We began our review of TSU's Athletics Department in June 2001.

Initially, Dr. Smith made serious allegations that some TSU senior management officials, including TSU's President, had received kickbacks from companies that did business with TSU. Subsequently, through interviews nearly a year later in April and May 2002, Dr. Smith modified his statements relating to his allegations of misconduct, after the auditors indicated to him that they were having difficulty substantiating some of his concerns.

Dr. Smith speculated that the kickbacks had been paid as quid pro quo for approving contract terms disadvantageous to the university; paying a vendor although the vendor had provided little of value; allowing a company to improperly retain revenues that should have been provided to the university; inappropriately approving one vendor instead of a competitor; and enabling a corporation to overbill the university for food services. Dr. Smith made additional serious allegations that some TSU senior management officials, other TSU staff, and individuals associated with but not employed by TSU had committed thefts.

Based on presently available information, which was derived from review procedures considered appropriate under the circumstances and in light of the nature of the information provided to this office, the auditors concluded that there was no evidence of kickbacks or thefts on the part of TSU officials, staff, or individuals associated with but not employed by TSU.

Although Dr. Smith's allegations relating to kickbacks and thefts were not substantiated, one of Dr. Smith's many allegations was that ARAMARK Corporation, the university's food service vendor, paid for Dr. Hefner to attend the 2001 Super Bowl in Tampa, Florida. This allegation was substantiated. This review concluded that Dr. Hefner exploited his position, the university's relationship with ARAMARK,

and his familiarity with ARAMARK officials to obtain an improper benefit for him and his family.

Furthermore, this review determined that Dr. Hefner materially misrepresented to the auditors significant aspects of the ticket transaction.

For example, Dr. Hefner initially stated that he had asked for and received two tickets. In a subsequent interview, he acknowledged receiving four tickets, two of which were counterfeit. Dr. Hefner initially stated that he paid for the tickets. Later, he acknowledged that the tickets had been provided to him free of charge. In addition to receiving Super Bowl tickets, Dr. Hefner also acknowledged in February 2004 that he and his wife had attended some events at the 1996 Olympics in Atlanta, Georgia, as guests of ARAMARK and had stayed at an Atlanta hotel during part of the Olympics at ARAMARK's expense. ARAMARK officials did not have cost information related to Dr. Hefner's 1996 Olympics trip.

In regard to the selection process that ultimately resulted in the 2001 contract between TSU and ARAMARK, this review determined that because Dr. Hefner was not on the selection committee and did not have contact with selection committee members during their deliberations, he did not affect the contract award recommendation of ARAMARK. It appears that the ARAMARK contract was handled routinely, and senior management officials had not exerted undue influence on the process. The review also concluded that Dr. Hefner's receipt of the tickets was not in exchange for the awarding of a contract and thus was not a kickback.

Also questionable were the activities of Mr. Clay Harkleroad, TSU's Vice President for Business and Finance, in relationship to the benefits he received from ARAMARK. Mr. Harkleroad acknowledged that he and his wife had attended some events at the 1996 Olympics in Atlanta as guests of ARAMARK. He stated that he obtained two Atlanta Braves complimentary tickets in 1997 or 1998; four Atlanta Braves complimentary tickets in 1999; and four tickets to the Tennessee vs. Florida football game in Gainesville, Florida, in 2001. Also, Mr. Harkleroad told the auditors that he paid for the Tennessee vs. Florida football tickets, and he provided the auditors with a copy of his \$100 check to ARAMARK.

In regard to the Atlanta Braves complementary tickets, ARAMARK officials stated that the tickets were purchased as part of a corporate season ticket package and were worth \$27 each. This review further confirmed that the football tickets for the Tennessee vs. Florida game cost \$25 and that by paying \$100 he paid the actual cost of the four tickets. Like Dr. Hefner, Mr. Harkleroad was not on the food services selection committee, and the committee members stated that he did not have any input into their recommendation for ARAMARK.

In regard to other concerns expressed by Dr. Smith, although his allegations were not substantiated, examination of the areas he had identified disclosed deficiencies in management practices and noncompliance with TBR and TSU policies and procedures, which he had not identified. Some of these deficiencies resulted from the action, or inaction, of Dr. Hefner and other university staff, while other deficiencies resulted from the activities of Dr. Smith and Athletics Department staff. In some cases, the responsibility for the deficiencies was shared.

As examples of shared responsibilities, Dr. Hefner, Dr. Smith, and the Purchasing Director failed to ensure that the advertising contract with Tom Jackson & Associates of Nashville, Tennessee, was rebid, as required by TBR and TSU purchasing policies. The contract was renewed during Dr. Smith's tenure. Although the Tom Jackson & Associates contract pre-dated Dr. Smith's tenure and was renewed during his tenure, neither the President's office nor the Athletics Department nor the firm maintained sufficient documentation of the firm's performance related to the contract terms.

Another deficiency attributable to Athletics Department staff during Dr. Smith's tenure was that they failed to deposit a \$126,175 check from Summitt Management Corporation in a timely manner. Also, prior to Dr. Smith's tenure, as a result of a coding error by Athletics Department staff, Tom Jackson & Associates was overpaid \$5,754.75 because one payment was not correctly coded as a charge to the contract. Instead, the expense was paid through a "debit voucher" and thus was not tabulated as a contract expense. Because the expense was incorrectly coded, it was not properly accumulated with correctly coded expenses, which ultimately allowed the specified contract amount to be exceeded.

In regard to whether Dr. Hefner allowed a company to improperly retain revenues that should have been provided to the university, this review found deficiencies that occurred prior to Dr. Smith's hire as Athletics Director in 1999. For example, Dr. Hefner, the then-Athletics Director, and the Purchasing Director failed to properly execute an amendment to the contract with Summitt Management Corporation (Summitt) that formalized the change in the revenue base used to calculate Summitt's payment to TSU for the Southern Heritage Classic football games and also failed to include the required termination clause in the contract.

On the other hand, during interviews with the auditors, Dr. Hefner provided information related to deficiencies in Athletics Department operations that had occurred during Dr. Smith's tenure as Athletics Director. These matters included unapproved purchases, unpaid vendors, failure to fund the TSU Coaches' Show through the sale of advertising

time, and unapproved initiatives by Dr. Smith related to Revelation Corporation of America, headquartered in Memphis, Tennessee.

In regard to the deficiencies noted by Dr. Hefner, this review disclosed that Dr. Smith had undertaken several significant fund-raising initiatives involving TSU and Revelation Corporation of America (Revelation America) without Dr. Hefner's knowledge or approval. Dr. Smith had also arranged for public announcements that misrepresented that TSU had received a \$100,000 donation from Revelation America and that the university and Revelation America had formally agreed to a downpayment assistance program for university faculty and staff. In addition, Dr. Smith had initiated a debit card program in partnership with Revelation America without the knowledge or approval of the university's top management or TBR staff.

Moreover, during Dr. Smith's tenure, some Athletics Department staff arranged for vendors to provide goods and services without following TSU's purchasing policies and procedures. Further, the Athletics Department was substantially in arrears in paying vendors with whom proper contractual arrangements had been executed. Dr. Smith also advised Dr. Hefner that he would obtain sufficient funding for the TSU *Coaches' Show*, but he failed to do so. In addition, he gave advertisers free air time on the *Coaches' Show*. Moreover, Athletics Department staff, with Dr. Smith's knowledge, improperly deposited funds in the amount of \$8,500 into a TSU Foundation account in order to circumvent the Business Office when the funds should have been deposited into a TSU account.

Overall, the voluminous nature and seriousness of Dr. Smith's issues, whether expressed as allegations of significant misconduct or as speculative "concerns," as well as the material problems in the Athletics Department identified by Dr. Hefner, were indicative of a power struggle between Dr. Hefner and Dr. Smith for control of the Athletics Department's resources and spending. Clearly, Dr. Hefner and Dr. Smith distrusted each other. As is evident from the review of Dr. Smith's initiatives related to Revelation America's \$100,000 donation to the Athletics Department, downpayment assistance program, and debit card program, Dr. Smith materially misrepresented his activities.

With regard to the issue of the proposed funding of the TSU *Coaches' Show* through corporate purchases of advertising time, Dr. Smith provided a misleading assessment to Dr. Hefner that the show would be self-supporting in its first year. Dr. Smith exhibited a lack of understanding and appreciation of the need to inform Dr. Hefner about his proposed initiatives; to obtain appropriate advice and approval; or to seek appropriate guidance about legal and contractual issues. In these matters, Dr. Smith exhibited minimal consideration of the requirements or ramifications of his actions.

For his part, in some instances, Dr. Hefner took actions that had the appearance of diminishing the authority and control of the Athletics Director. As examples, Dr. Hefner by letter apparently transferred the responsibility for supervising the Tom Jackson & Associates contract from the Athletics Department to the President's Office; and Dr. Hefner also approved the transfer of \$32,190 from the Football Events account under the Athletics Department to the President's Events account under the President's Office without notifying Dr. Smith. However, in other matters, Dr. Hefner was very clear and specific in his directives to Dr. Smith as well as his questions and his statements related to Dr. Smith's fiduciary and management responsibilities. During the course of the review, Dr. Hefner's most serious breach of his responsibilities was his use of the university's relationship with ARAMARK to obtain Super Bowl tickets and hotel accommodations for himself and his failure to be forthcoming about those activities with the auditors.

The matters discussed in this report have been referred to the appropriate authorities.

The review resulted in 40 recommendations, including 35 related to university controls and management. Three recommendations are related to the Tennessee Board of Regents and staff; and two recommendations address possible statutory changes for consideration by the Tennessee General Assembly.

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## **Information Systems**

The Information Systems (IS) section provides three basic services: data retrieval, IS systems review, and computer forensic analysis.

### **Data Retrieval**

The data retrieval staff provide information for audit field work. They write computer programs to provide information from the state's centralized accounting system, individual agency service delivery systems, and college and university transaction files. Various statistical sampling techniques, together with stratification and summary reports, provide the auditor a statistical basis on which to evaluate an entity's operations. Data retrieval staff also produce listings and perform comparisons and other procedures to detect errors or irregularities. Working closely with other audit staff, retrieval staff develop new computer-assisted audit techniques.

The IS section develops automated techniques to reduce costs and improve efficiency. The retrieval and review staff work with the financial and compliance auditors to create computer-assisted audit techniques (CAATs) that use computer programs to perform portions of the audits now done manually. To expand its capability to perform CAATs, the division has implemented Audit Command Language (ACL), data analysis and reporting software. ACL enables nontechnical auditors to perform sophisticated queries and analyses of financial transactions. Because ACL's capabilities are audit specific, yet still highly flexible, the software allows auditors to readily organize and evaluate information embedded in complex systems. IS



audit staff provide support in the migration of CAATs from the mainframe to the financial auditors' personal computers.

### **Information Systems Review**

The IS review staff are responsible for obtaining and documenting an understanding of the internal control structure in the computerized accounting and management information systems of entities undergoing financial and compliance audits. These entities include state agencies, colleges and universities, and quasi-governmental organizations. The IS staff review the general and application controls within data processing systems when those systems significantly affect the auditee's operations. The results of these reviews are included in the financial and compliance audit reports. The individual computer centers for various state agencies are audited according to generally accepted government auditing standards. The IS section also conducts Data Reliability Reviews on both financial and program administration systems. These reviews are designed to assess the reliability of key elements of the application's computer processed data, assess the implementation and effectiveness of user control procedures (reconciliations and manual checks to ensure that data is complete and accurate), and to assess the manual follow-up procedures (procedures in place for error correction and review). The procedures conducted are based on the GAO's supplement to *Government Auditing Standards, Assessing the Reliability of Computer-Processed Data*, and the AICPA's *Audit Guide, Consideration of Internal Control in a Financial Statement Audit*.

### **Computer Forensic Analysis**

The IS section provides services in the area of computer forensic analysis. Evidence of fraud and abuse may be found on subjects' computers, and the IS section works in support of the Investigation section to acquire, identify, and analyze this evidence. The section utilizes specialized software and hardware to recover evidence of official misconduct by state employees and in support of civil or criminal action against persons or entities engaging in illegal activities resulting in damages to the state.

### **Developments**

The IS audit staff recognize that as computer-based systems become more commonplace, all auditors will need increased technical skills to perform their jobs. Toward that end, the IS section has been heavily involved with in-house training and for several years has taught classes on computer-assisted audit techniques, specialized audit software, auditing automated financial management systems, and computer forensic investigation techniques. In addition, information is exchanged through contacts with other state audit organizations for ways to improve IS audit support.

In a new initiative, the IS section is developing a computer network laboratory to assist in the development and performance of network vulnerability assessments to help ensure the security of state computer systems and data.

## Legislative Liaison

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The Comptroller's Office provides staff to the Senate and House Finance, Ways and Means Committees for assistance with fiscal and budget information. In addition to furnishing information, the staff produces three fiscal publications for distribution to legislators and their constituents and other government agencies.

The *Fact Book*, first prepared in 1987, is an annual, pocket-sized publication that is a compilation of budget information and facts about major departments of state government. It also includes federal, state, and local budgets and graphs; revenue schedules; and various national and state data comparisons.

*Analysis of Expenditures and Positions and Selected Fiscal Data*, an annual publication since 1981, presents comparisons of budgets and authorized positions by showing the amount and percentage of growth over a five-year period for each department of state government. In addition, the approximately 110-page publication presents fiscal data for various state programs for the same period.

*County-by-County Analysis* consists of 95 sets of schedules (one set of nine schedules for each county) that detail by major programs the estimated state dollars benefiting the residents of a county. State government agencies furnish basic data for the schedules while the Division of State Audit provides significant personnel support for the project. *County-by-County Analysis* has been compiled each year since 1977.

## **Division of County Audit**

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**Richard V. Norment**  
**CIA, CGFM**  
**Assistant to the Comptroller**



**Arthur L. Alexander, CGFM**  
**Director**

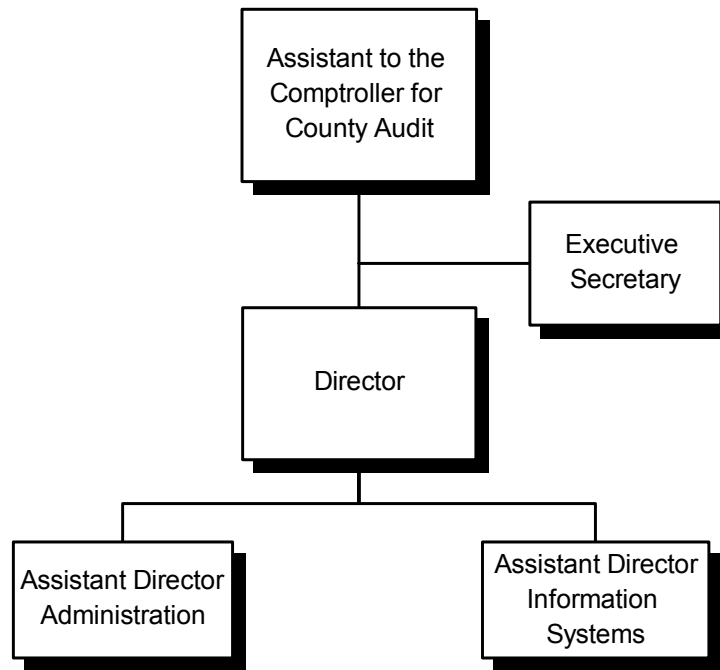


**Bob Powell, CGFM**  
**Assistant Director**  
**Administration & Training**



**Jim Arnette**  
**CISA, CGFM, CCP**  
**Assistant Director**  
**Information Systems**

## Division of County Audit



The Department of Audit, through the Division of County Audit, is responsible for the annual audits of all 95 counties in the state. The division may conduct the audit of a county or accept an audit prepared by a certified public accountant provided the audit meets minimum standards for county audits established by the Comptroller of the Treasury. However, the Division of County Audit is required to prepare an audit in each county at least once every five years or to participate with, or monitor the audit with, the certified public accountant.

### Financial and Compliance

The division presently conducts audits in 88 counties. These audits are assigned to teams that audit the various offices and/or departments and entities of county government. The audit staff is divided into four geographical areas: East, Mideast, Middle, and West. Each area is under the supervision of an audit manager who is responsible for audit planning and supervision.

### Contract Audits

In the remaining seven counties, certified public accountants perform the audits. The division monitors these audits in accordance with a four-year monitoring plan that is updated annually. Typically, the division annually reviews working papers prepared by certified public accountants in two of the counties.

The division also approves the contracts of certified public accountants and reviews their audit reports and working papers. The

objective of this review is to ensure that in addition to the standards prescribed by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the United States Comptroller General, certain standards prescribed by the Comptroller of the Treasury have been followed.

## **Other Services**

In addition to the basic post-audit function and the monitoring and review of audits by certified public accountants, the division provides other services. These services include providing assistance, upon request, to counties in resolving current problems with financial administration, as well as answering questions on various local governmental matters.

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## **Scope of Activity**

### **Post-Audit of County Governments**

The Division of County Audit conducted audits in 88 of the state's 95 counties during the 2003-04 audit year. A minimum of ten offices or departments in each county was audited:

County Trustee	Circuit Court Clerk
County Mayor	General Sessions Court Clerk
Department of Education	Chancery Court Clerk and Master
Department of Highways	Register
County Clerk	Sheriff

The audits of all offices were for the year ended June 30, 2003.

The audit field work in each county is conducted by an audit team. The size of the team is determined by the complexity of the assignment. Approximately ten weeks of field work are required, including audit review and supervision by an auditor 4 and/or audit manager. The draft audit reports are reviewed in the Nashville office, then printed and released. The entire process is concluded within approximately four months from the date of initial field work.

The division also prepares audits of two special school districts and performs special audits and reviews as requested or as deemed necessary.

### **Information System Review**

Most county government offices and departments in Tennessee have automated all or a portion of their daily operations. The information system (IS) review section is responsible for conducting reviews of those computer-based accounting and information systems to determine whether an entity's existing procedures and controls provide adequate assurance of data accuracy and financial and operating statement reliability. An assistant director supervises this section's IS audit manager and six IS auditors, who are assigned to different areas of the state.

An IS systems review consists of a review of the general and application controls of a county's computer hardware and computerized accounting and information systems. Findings resulting from an IS review are discussed with the appropriate officials and presented in a report on the internal controls regarding computer operations in the county. The IS findings also may be included in the county's annual financial report.

IS systems reviews were conducted in 39 counties during the year ended June 30, 2004. The division anticipates that IS reviews will be conducted in 47 counties and two special school districts during the year ending June 30, 2005.

### **Monitoring and Review of Contract Audits**

A four-year monitoring plan is maintained by the division for counties audited by certified public accountants. The division will monitor audits of seven county governments during the next four years. The audits of Washington and McMinn Counties were monitored for the year ended June 30, 2003, and the audits of Sumner and Shelby Counties will be monitored for the year ended June 30, 2004.

The division reviewed 301 audit reports for the year ended June 30, 2003, submitted by certified public accountants for audits of county governments, authorities, boards, commissions, agencies, and special school districts. The division anticipates it will review 299 such reports for the year ended June 30, 2004.

### **Reviews of Funds Administered by District Attorneys General**

During 2004, the division conducted reviews of District Attorney General Funds, Judicial District Drug Task Force Funds, and other funds the district attorneys general administer in the state's 31 judicial districts. Each review covered the period July 1, 2002, through June 30, 2003. The scope of each review was limited to the transactions of the individual funds and did not include the overall operation of the district attorneys' offices.

### **Reviews of County Correctional Incentive Program (CCIP)**

*Tennessee Code Annotated*, Title 41, Chapter 8, referred to as the County Correctional Incentive Act, provides counties financial incentives to house nondangerous felony offenders at local correctional facilities. The purpose of the program is to mutually benefit state and county governments by helping to alleviate overcrowding in state correctional facilities and reduce high operating costs, and to assist counties in upgrading local correctional facilities and programs. Counties participating in the program may be reimbursed at either a minimum statutory daily rate or a rate based on a county's "reasonable allowable cost" to house convicted felons.

The Division of County Audit conducts reviews of counties participating in the County Correctional Incentive Program. In performing the reviews, the division tests the county's financial records and other supporting records pertaining to the Final Cost

Settlement Reports. Testwork is also performed on the Correction Facility Summary Reports and State Prisoner Reports. Reviews were conducted in 17 detention facilities during the 2003-04 audit year. As a result of the reviews, it was determined that the state had overpaid \$879 for two facilities and underpaid \$81,620 for four facilities. The reviews of ten facilities resulted in no over- or underpayments. The record-keeping system for one facility did not allow us to make a reasonable determination of over- or underpayments, and a final cost settlement for these facilities was at the discretion of the Department of Correction. Subsequent monthly claims filed by the affected counties have been or are being adjusted to reflect the underpayments or overpayments.

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**Financial and Compliance  
Audit Process**

The Division of County Audit performs the following general procedures as part of the financial and compliance audit process:

- Evaluates the entity's existing internal controls in the appropriate areas of operation.
- Confirms the accountability for receipts by examining, for example, tax rolls, state and federal revenue data, and letters of inquiry.
- Determines the appropriateness of disbursements by examining budget authorization, paid invoice files, purchasing files, payroll records, and other financial records.
- Determines the authorization for transactions by reviewing the minutes of meetings of county commissions, school boards, highway commissions, and various committees such as budget and finance, and purchasing.
- Determines compliance with federal regulations and state and local laws.
- Obtains management's representations with respect to the financial statements, as well as the supporting accounting data, and other items of disclosure.
- Evaluates financial statement presentation to determine conformity with generally accepted accounting principles.
- Evaluates the validity of all evidence obtained throughout the audit process in order to formulate an opinion on the financial statements.

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**Results of Audits and  
Reviews**

**Financial and Compliance Audits**

Audits of financial transactions for the year ended June 30, 2003, conducted by the Division of County Audit disclosed cash shortages in the following offices or funds:

Crockett County Sheriff	\$ 842
Dickson County Clerk and Master	160
Hamblen County Sheriff	14,326
Hamblen County Clerk	14,581
Hickman County School Department	4,171
Sevier County Clerk	16,836
Wilson County Clerk	9,790
Wilson County Sheriff	<u>24,155</u>
Total Cash Shortages	<u>\$84,861</u>

The audits conducted by this division disclosed fund deficits of \$76,163,064 in 57 governmental fund accounts in 44 counties. These audits also reflected fund deficits totaling \$12,804,523 in eight enterprise funds and four internal service fund accounts in ten counties.

The division's examination of offices and departments in 88 counties resulted in several recurring audit findings summarized below. The number of counties in which the finding occurred is shown in parentheses following the finding.

- Government-wide financial statements were not prepared. (25)
- A system of central accounting, budgeting, and/or purchasing was not in use, frequently resulting in inefficient and uneconomical operations of various county offices and departments. (56)
- Property records and a self-balancing group of accounts for all general fixed assets were not maintained in accordance with generally accepted accounting principles. (41)
- Fund expenditures exceeded appropriations approved by the local governing body. (22)
- Purchasing procedures were not in accordance with controlling statutes. (42)
- Clerks of court failed to prepare and/or reconcile a trial balance of execution docket balances with cash journal accounts. (16)
- Drug control funds were not administered in compliance with statutory provisions. (20)
- Funds were not deposited within three days of receipt, as required by state law. (26)



- Depositories for county funds were not required to place securities in escrow in sufficient amounts to adequately protect funds on deposit, as required by state law. (11)
- Loans, notes, or lease-purchase agreements were not approved by the County Commission and/or director of Local Finance. (15)
- Fees and commissions earned by the county clerk, clerks of court, and register were not remitted to the county in compliance with controlling statutes. (11)
- Inventory records of assets owned by the county were not maintained, as required by generally accepted accounting principles. (25)
- Deficiencies occurred in accounting/recordkeeping. (84)
- An internal control weakness resulted due to the inadequate segregation of duties for accounting personnel. (81)
- Purchase orders were not used or were not issued properly in the purchasing process. (50)
- The Sheriff's Office had deficiencies in prisoner booking procedures. (5)

Some of the specific findings disclosed in audits and reviews during the past year are summarized on the following pages.

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**Coffee County Sheriff**  
For the Year Ended June 30, 2003

The office had deficiencies in its administration of drug control funds. Questionable expenditures of \$15,384 were made from the Drug Control Fund. In addition to these questionable expenditures, confidential funds of \$6,627 were used for nonconfidential purposes. An examination of payments to informants disclosed that receipts were not always signed, receipts did not include a case number, some of the cases were not drug related, and most of the payments did not result in a court case.

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**Coffee County Budget Director**  
For the Year Ended June 30, 2003

Deficiencies were noted in the operations of the jail commissary, which the budget director operated. General ledger accounts were not maintained to account for receipts and disbursements, a trial balance of inmate balances was not maintained, commissary transactions were not reconciled with commissary computer data, bank transactions were not reconciled with commissary operations, and prenumbered receipts were not issued for collections. In addition, funds were not deposited to the office bank account within three days of collection, prenumbered checks were not issued for disbursements, profits from commissary operations were not determined and remitted to the county, and an inventory of commissary merchandise was not maintained.

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**Fayette County Director  
of Schools**  
For the Year Ended June 30, 2003

Irregularities were noted in the School Department's disbursement of Twenty-first Century Community Learning Center's Grant Program funds. Because of these irregularities, our audit reported questioned costs of \$394,651. The district attorney general requested that the Tennessee Bureau of Investigation conduct an investigation of these irregularities, and their investigation resulted in the indictment of the grant administrator for theft of property over \$60,000 and forgery. On April 23, 2004, the former grant administrator was convicted and ordered to pay restitution of \$89,951.

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**Fentress County Highway  
Superintendent**  
For the Year Ended June 30, 2003

The Highway Department purchased used quarry equipment totaling \$35,000 based on an oral agreement and without taking competitive bids. Adequate documentation was not maintained to support the purchase, and highway personnel did not acknowledge the receipt of the equipment. Another deficiency noted in our audit involved the department's improper disposal of county-owned property. The Highway Department purchased a used patrol car for \$850 from the Sheriff's Department, replaced the car's faulty transmission, and resold it to a Highway Department employee for \$1,300, violating state statute. In addition, the Highway Department sold a dump truck to an individual without a public auction, bids, or other competitive process.

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**Hamblen County Sheriff**  
For the Year Ended June 30, 2003

During June 2003, the sheriff notified us that he had dismissed an employee for misappropriating prisoners' personal funds. This former employee had performed bookkeeping duties for the jail and the jail commissary. We reviewed certain controls over the personal effects of prisoners and prisoners' funds for the year ended June 30, 2003, and we audited the commissary operations for the year ended June 30, 2003. Our review and audit revealed a cash shortage of \$14,326, serious control weaknesses in accounting for prisoners' personal effects and funds, and serious internal control weaknesses in the administration of office funds. Because of these deficiencies and inadequate controls, the scope of our audit was not sufficient to enable us to determine the propriety of financial operations of the Sheriff's Office.

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**Humphreys County  
Director of Schools**  
For the Year Ended June 30, 2003

The office had several accounting deficiencies. An excessive number of unexplained general journal entries were made to the accounting records of the General Purpose School Fund and the School Federal Projects Fund. In the General Purpose School Fund, 66 general journal entries totaling \$2,473,945 were made to the accounting records, and in the School Federal Projects Fund, 151 general journal entries totaling \$1,963,309 were made to the accounting records without sufficient documentation explaining why these entries were made. Other deficiencies involved the office's failure to include \$26,176 on the accounting records of the General Purpose School Fund, reconcile cash balances of the General Purpose School Fund and School Federal Projects Fund with the trustee's cash balances, properly classify revenues on the accounting records of the School Federal

Projects Fund, and ensure that the chairman and secretary of the Board of Education sign the board's minutes.

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**Lewis County Director of Schools**

For the Year Ended June 30, 2003

The office's weak internal controls over fuel resulted in the theft of gasoline for an employee's personal use. This employee repeatedly used the office's card-lock fuel distribution system to fraudulently obtain fuel valued at \$3,131. He subsequently resigned his position and fully reimbursed the school system for the stolen fuel.

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**Montgomery County Executive**

For the Year Ended June 30, 2003

An office employee admitted to stealing \$19,480 in ambulance service and landfill collections from the Office of Central Accounting and Budgeting. Most of the stolen deposits were checks, of which \$17,706 had been replaced as of January 2004. We reviewed this finding with the district attorney general.

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**Pickett County Circuit and General Sessions Courts Clerk**

For the Year Ended June 30, 2003

The general sessions court clerk did not report and pay traffic school tuition to the county, as required by law. Instead, the clerk disbursed traffic school collections of \$14,690 for community service program expenditures; traffic school expenditures; pagers for the clerk, general sessions judge, and youth services officer; furnishings for the office and courtroom; and a contribution to the DARE program. These disbursements also included payments of \$10,200 that were made to the clerk's bookkeeper for her duties at the traffic school at the order of the general sessions judge, and no federal taxes were withheld from these payments. On June 30, 2003, the office had traffic school collections of \$4,879 in the bank that had not been remitted to the county.

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**Robertson County Executive**

For the Year Ended June 30, 2003

Two landfill employees were alleged to have destroyed original receipt tickets for customers who paid in cash, altered the computer files to reflect a no-charge transaction, and stolen the cash. Portions of 17 destroyed original cash receipts totaling \$605 that had been changed on the computer system from cash transactions to no-charge transactions were recovered from the trash. The landfill director fired the two employees in question.

In our review of the software used to generate receipt tickets, we found that two versions of the software were active on the landfill's computer system—an older version and an upgraded version. The older version of the software did not maintain an audit trail of transactions that were changed or deleted. Because the two versions shared the same data files, transactions created in the upgraded version could be altered in the older version without leaving an adequate audit trail. There were 3,590 instances of apparent alteration of receipt tickets. As a result of the inappropriate changes, the dollar values of the original tickets in the system were lost; however, considering the average of the recovered tickets was \$35, the loss could be estimated to exceed \$125,000. Because the landfill director, his assistant, and the two employees in question all handled the cash, had access to all software functions, and knew all user passwords, we

could not determine who was responsible for the theft. We reviewed this finding with the district attorney general.

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**Sequatchie County****Executive**

For the Year Ended June 30, 2003

The office had numerous deficiencies in bidding procedures, including accepting bids that did not meet bidding specifications, not accepting the lowest bid, and making a purchase before the date of the bid opening. Another finding involved the office's deficiencies regarding travel. In several instances, the county executive and office employees were inappropriately reimbursed for meals and non-travel items, and the county executive was reimbursed for her travel expenses to attend the Governor's Inaugural Ball, a personal expense. Payroll deficiencies were also discovered during our audit of this office. These problems included the office's failure to deduct the correct amounts from employee paychecks, ensure employee time sheets were maintained and approved properly, remit payroll deductions to vendors on time, reconcile payroll deduction accounts monthly, and maintain authorizations for employee gross pay. Another finding disclosed that three employees were compensated for leave that exceeded the amounts allowed by the county's personnel policies. In addition, the office submitted claims for reimbursement to the state Litter Grant Program for salary expenditures of \$4,643 that do not appear to be legitimate grant expenditures.

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**Sequatchie County Sheriff**

For the Year Ended June 30, 2003

Our audit noted that the Sequatchie County Commission approved the purchase of a patrol car from the county sheriff for \$9,000 without soliciting competitive bids. The sheriff had been a constable before his election as sheriff, and this car was the vehicle he used when he was constable. Purchasing the car from the sheriff is an apparent violation of the state's conflict of interest law.

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**Sevier County Clerk**

For the Year Ended June 30, 2003

The office had a cash shortage of \$16,836 resulting from improprieties in issuing automobile license renewal decals. The employee involved in this cash shortage resigned, the county clerk notified law enforcement personnel about the missing funds, and the employee was later charged with theft. Numerous internal control deficiencies allowed this shortage to occur and go undetected for an extended time, including the failure to review computer reports that showed deleted transactions, maintain inventory records, and analyze the volume of activity at one location, which would have indicated that something unusual was occurring.

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**Smith County Sheriff**

For the Year Ended June 30, 2003

Questionable practices were used in the disposition of vandalism and damage to personal property cases. The office collected funds from juveniles accused of vandalism and remitted the funds to the victims of the crimes. Instead of being deposited to the office bank account and disbursed by prenumbered checks, the collections were disbursed to the victims in cash. These vandalism cases were not entered into the court system but were adjudicated through agreements reached with the help of the Sheriff's Office.

<b>Wilson County Clerk</b> For the Year Ended June 30, 2003	The Office of County Clerk had a cash shortage of \$9,790. The total extent of the shortage may not be known because of the lack of documentation needed to determine the number of unreported transactions and their related dollar amounts. We reported this cash shortage to the district attorney general.
<b>Wilson County Sheriff</b> For the Year Ended June 30, 2003	The office had a cash shortage of \$24,155 that resulted from office personnel's failure to deposit or otherwise account for some inmate and commissary account collections and from an unauthorized disbursement of commissary funds. We reviewed this cash shortage with the district attorney general.
<b>Limited Review of the Obion County Nursing Home</b> For the Period July 1, 2000, Through March 31, 2003	<p>On March 5, 2003, the mayor of Obion County asked to meet with us concerning the way the Obion County Nursing Home administrator was administering bonuses to nursing home employees, payments to the administrator's husband, and the administrator's yearly compensation from all sources. Based on these concerns and other irregularities noted in our preliminary review, our office decided to conduct a limited review of the Obion County Nursing Home for the period July 1, 2000, through March 31, 2003.</p> <p>Our report presented 13 findings involving irregularities in the distribution of bonuses, overpayment of board-approved bonuses, purchasing, travel reimbursements, individuals not employed by the nursing home and employees of the nursing home receiving gifts paid with nursing home monies, retirement contributions paid on behalf of the administrator in violation of state statutes, gasoline purchases made by the administrator with her personal credit card, payroll transactions, and use of the nursing home van. We reviewed these findings with the nursing home administrator, the nursing home board of directors, the county mayor, and the district attorney general.</p>
<b>Information System Reviews</b>	<p>The following findings resulting from the information system reviews recurred in several offices or departments.</p> <ul style="list-style-type: none"> <li>• Various software applications did not have sufficient application controls.</li> <li>• Copies of system backups were not stored in secure, off-site locations. Adequate file retention and system back-up procedures are mandatory to guard against operational errors and disasters.</li> <li>• A disaster recovery plan was not developed to assist the office or department in the re-creation of its data processing environment in the event of a major hardware or software failure, or temporary or permanent destruction of facilities. Without a formal, written plan, critical computerized applications could be disrupted indefinitely until the system could be repaired or a back-up facility could be found and made operational.</li> </ul>

- Policies and procedures relating to routine computer operations were not documented. This documentation is needed to provide a basis for management control.

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**County Correctional  
Incentive Program (CCIP)  
Reviews**

The costs to operate the correctional facilities were not reported in accordance with state guidelines for determining reasonable allowable cost. In some cases, unallowable costs were claimed, while in other cases allowable costs were not claimed. In numerous other cases, costs claimed were either more or less than the actual costs.

## Division of Municipal Audit

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**Dennis F. Dycus, CPA, CFE, CGFM**  
**Director**

The Division of Municipal Audit ensures that annual audits, required by state statute, are performed for all Tennessee municipalities, public school activity and noncentralized cafeteria funds, utility districts, housing authorities, and certain nonprofit agencies receiving grants from the State of Tennessee. Also, as required by state statute, the division ensures that an agreed-upon procedures audit is performed for certain daycare providers receiving subsidy payments through the State of Tennessee. In addition, the division investigates allegations of misconduct, fraud, and waste in local governmental units other than counties, as well as nonprofit agencies receiving state grants, and performs investigative audits of the internal control structures and compliance of school activity and noncentralized cafeteria funds, utility districts, municipalities, and certain nonprofit agencies.

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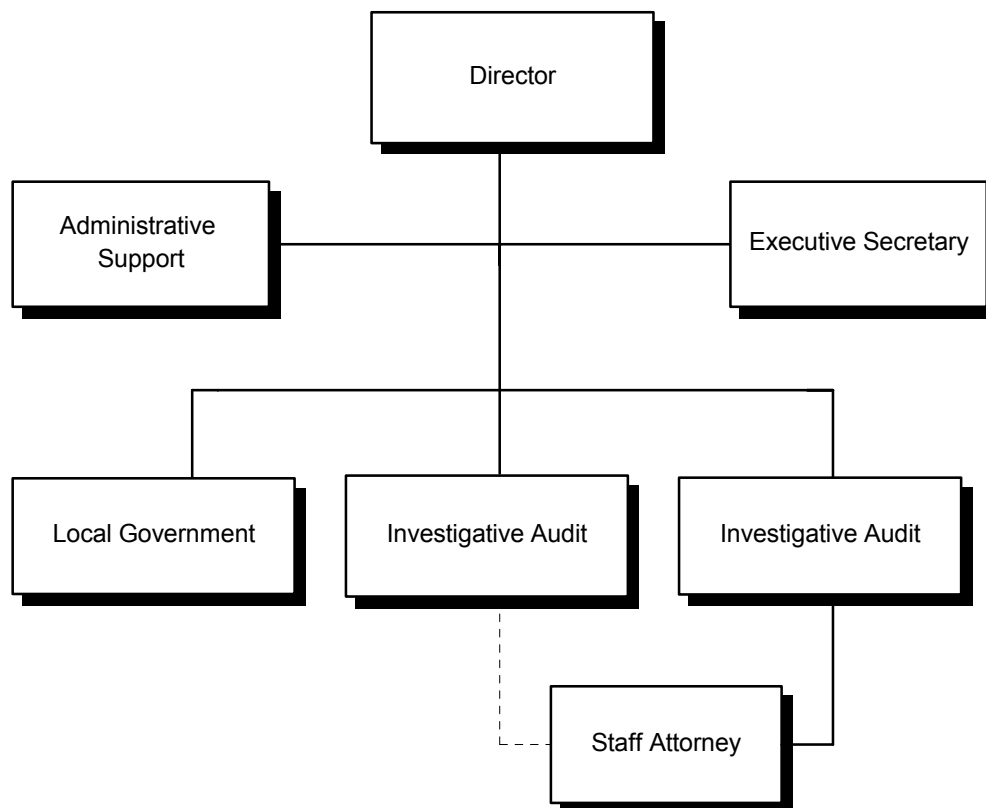
### **Audit Review Process**

Local governmental units (other than counties) and nonprofit agencies contract with independent certified public accountants to perform annual audits of Tennessee's 345 municipalities, 99 city-related entities, 47 quasi governmental entities, 54 quasi nonprofit entities, 188 utility districts, 164 public school activity and noncentralized cafeteria funds, 85 housing authorities, 83 day care centers, and 241 nonprofit agencies. The entities use standard contracts, prepared by the Comptroller of the Treasury, that must be approved by the Comptroller's designee in the Division of Municipal Audit before audit work begins. These audits must be performed in accordance with generally accepted government auditing standards or

agreed-upon procedures and certain other minimum requirements prescribed by the Comptroller of the Treasury. In addition, the auditor must comply with certain other federal and state provisions.

The Division of Municipal Audit reviews each audit report to verify that it adheres to applicable reporting requirements. If a local governmental unit or nonprofit agency fails or refuses to have an audit, the Comptroller may direct the Division of Municipal Audit, or may appoint a certified public accountant, to perform the audit. The division evaluates the audit working papers of certified public accounting firms that audit local governmental and nonprofit entities. If the firm's audit working papers are deemed substandard, the Comptroller of the Treasury takes appropriate action, which might include referral to the State Board of Accountancy. The division is responsible for monitoring over 1,964 nonprofit organizations that have received grants from the State of Tennessee; some of these organizations are required to have an audit of their entire organization. These audits are conducted by certified public accounting firms which contract with the division.

### Division of Municipal Audit





Sections 68-221-1010 and 7-82-401g(1), *Tennessee Code Annotated*, require the Comptroller to refer financially distressed municipal wastewater and public utility districts to the state's Water/Wastewater Financing Board or the Utility Management Review Board. After reviewing the audit reports, the Division of Municipal Audit will refer financially distressed facilities to the appropriate board. The board then reviews the current financial condition of the facility and its proposed plan for eliminating its financially distressed condition. If the board finds the facility's plan unacceptable, the board will recommend an alternate course of action. During the year ended June 30, 2004, 8 municipal wastewater facilities were referred to the Water/Wastewater Financing Board, and 9 utility districts were referred to the Utility Management Review Board. As a result, several utility districts and municipal water and/or sewer systems are now operating or are on their way to operating on a financially sound basis.

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## **Investigative Audits**

The division investigates allegations of misconduct, fraud, and waste in local governmental units (other than counties) and certain grant fund recipients. Investigative audits are performed as a result of allegations received through the Department of Audit's toll-free hotline, routine audit reviews, and information received from certified public accountants or other state agencies. Upon completion of each examination, the Comptroller issues a report or letter presenting documented occurrences of improper activity and recommending corrective action. The report is forwarded to the State Attorney General and the local district attorney general for any legal action deemed necessary.

The division also conducts investigative audits that include a thorough review of the internal control structures and compliance with applicable laws. Municipalities are required by statute to maintain their records, at a minimum level, in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*, prescribed by the Comptroller of the Treasury. Utility districts are required by state statute to follow the *Uniform Accounting Manual for Tennessee Utility Districts*, compiled by the Division of Municipal Audit. State statute requires schools to follow the *Internal School Uniform Accounting Policy Manual*, compiled by the Tennessee Department of Education, the Department of Finance and Administration, and the Division of Municipal Audit. At the conclusion of an investigative audit, the division publishes a report which identifies internal control structure and compliance weaknesses and recommends corrective action. The audits point out to officials the importance of sound internal controls and compliance with applicable laws and regulations.

The division routinely provides technical assistance to local government officials and certified public accountants. This assistance often requires detailed research of financial accounting concepts and state and federal statutes.

<b>Audits and Investigative Audits</b>	<p>For the year ended June 30, 2004, the Division of Municipal Audit performed 1,135 reviews of audit reports for local governmental units (other than counties) and nonprofit entities. The division released 26 investigative audits during the year. The entities examined in the 26 investigative audits included 12 municipalities, 8 public schools, 3 nonprofit entities, and 3 utility districts. The majority of the investigative audits involved allegations of fraud, waste, and abuse. Most investigative audits revealed weaknesses in internal controls, absence of internal controls, or potential problem areas that created an environment conducive to fraud. During the 2004 fiscal year, investigative audits revealed losses of at least \$3,115,113 due to fraud. In total over 13 defendants' cases were disposed of in fiscal year 2004. All defendants either pled guilty or entered into pretrial diversion agreements. Over 15 counts were dealt with. In all, defendants were ordered to pay restitution of \$85,636.</p>
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## Highlights of Investigative Audits

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<b>City of Lebanon</b>	<p>Our investigative audit, performed in conjunction with a Lebanon Police Department investigation, revealed that between July 1, 1999, and May 31, 2002, the former city purchasing agent executed numerous transactions amounting to over \$40,000 using the city's purchasing cards. Of this amount, purchases amounting to \$27,760 appeared to be for the former purchasing agent's personal benefit. Auditors determined that the former purchasing agent operated a publishing and photography business, and that many of the identified purchases were related to photography and publishing. The apparent personal purchases at city expense were allowed to occur and remain undetected for almost two years due to weaknesses of controls in the procurement (purchasing) card program.</p> <p>The former purchasing agent was indicted on two counts of theft over \$1,000, class D felonies; and on two counts of theft over \$10,000, class C felonies. The case is pending.</p>
<b>East Tennessee Human Resource Agency (ETHRA)</b>	<p>Our investigative audit revealed that between May 1, 2000, and September 30, 2001, a former employee of the ETHRA Representative Payee Program apparently diverted the proceeds of program checks totaling at least \$53,729 for her personal benefit. The checks in question were made payable to the employee, to various utilities, to retail and grocery stores including Wal-Mart and Kroger, and to loan companies. The former employee drew the money from accounts intended to benefit 43 disabled and veteran clients by falsifying check requests and by forging and/or altering receipts for cash, goods, and services that the clients never actually received.</p> <p>The former employee was indicted on theft over \$10,000, a class C felony; forgery over \$10,000, a class C felony; computer offense over \$10,000, a class C felony; and money laundering, a class B felony. She pled guilty to theft over \$10,000 and forgery over \$10,000, received an effective 8-year sentence that she was ordered</p>

to serve in the Tennessee Department of Correction. The other two counts were dismissed.

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**City of South Fulton**

Our investigative audit revealed that between January 1, 2002, and December 31, 2002, a former city clerk failed to deposit at least \$1,900 of collections into the city's bank account. The former clerk failed to post certain manually receipted collections to the computerized accounting system and, in other instances, posted an amount less than the amount received. The former clerk then deposited only the amount reflected in the computer records to the city's bank account.

The former clerk was indicted for theft over \$1,000, a class D felony. Upon pleading guilty, she was placed on judicial diversion for a period of three years and ordered to pay restitution of \$4,000 (including \$2,000 for costs of the investigative audit). As a further condition of her diversion, the former clerk was prohibited from working for a governmental agency in an accounting capacity during the course of her probation.

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**Eastside Elementary School  
Warren County Schools**

Our investigative audit revealed that the former bookkeeper apparently misappropriated at least \$17,499 of school collections between July 1, 2001, and December 31, 2002. \$13,970 of this total represented vending machine revenue. The former bookkeeper apparently attempted to conceal the shortage by incorrectly recording transactions in the school's accounting records. Auditors also noted apparent shortages in deposits related to book fairs and fundraisers. Further, auditors discovered that concession operations were far less profitable than would be expected; this could represent a shortage of at least an additional \$1,000.

The former bookkeeper was indicted for theft over \$10,000, a class C felony. Upon her plea of guilty, she was placed on judicial diversion for three years and ordered to pay restitution of \$15,000.

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**West Warren-Viola Utility  
District**

Our investigative audit revealed that over a three-year period ending in June 2003, a former district billing supervisor failed to properly deposit district collections totaling at least \$34,163 into a district bank account. The former supervisor admitted that she used this diverted cash for her personal benefit. Because the former supervisor had complete control of bank deposit transactions from beginning to end, she was able to conceal the shortages from management. Auditors discovered 69 instances where valid deposit slips associated with shortages could not be located. The former billing supervisor replaced many of the missing deposit slips with a fictitious version—one that showed the total collected, the total that should have been deposited, but that was not validated by the bank and did not reflect the true amount deposited.

The former supervisor was indicted for theft over \$10,000, a class C felony. Upon her plea of guilty, she received a sentence of four years

of judicial diversion. She was further ordered to pay restitution of \$36,503 (including \$2,000 for the cost of conducting the investigative audit).

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**Pennington Elementary—  
Metro Nashville Schools**

Our investigative audit revealed that the former school bookkeeper apparently misappropriated at least \$12,213 of school funds for her personal benefit. This total included:

- School checks totaling \$9,231 for unauthorized and unapproved purposes. The school's records included false entries, apparently to conceal the true nature of the disbursements. The school principal stated that the signature on checks was not hers and that she had not authorized the bookkeeper to sign on her behalf.
- Charges totaling \$2,094 on the school's VISA procurement card for personal, nonschool purposes.
- Collections from school fundraisers amounting to at least \$887 (the break-even point) were not receipted or deposited by the former bookkeeper.

Auditors also discovered that the former bookkeeper had apparently opened an Office Depot charge account in the school's name without the knowledge or approval of management. She made purchases on the account that included two personal computers, a photo printer, and a leather chair. None of these items were delivered to the school and the account remained unpaid as of the end of fieldwork.

The former bookkeeper was indicted for theft over \$10,000, a class C felony. Upon her plea of guilty, she was sentenced to four years, ordered to serve 30 days of the sentence and then placed on probation for the remainder of the sentence. She was further ordered to pay restitution of \$15,430.

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**Bridges USA, Incorporated**

Our investigative audit revealed that between November 1, 2002, and April 30, 2003, the former controller used several methods to obtain agency money for his own benefit without authority to which he was not entitled. The loss to the agency totaled \$19,970. Included in the total:

- Six unauthorized checks totaling \$5,903 to the former controller
- Four checks totaling \$7,052 issued to American Express for the former controller's personal account
- A \$6,894 shortage in petty cash
- An unauthorized, never repaid loan of \$120 from petty cash

The former controller was indicted on two counts of theft over \$10,000, class C felonies. In August 2004, he pled guilty and received a 3-year sentence, all but 90 days of which were suspended. He was also ordered to make restitution of \$21,790, including \$2,000 to cover the expenses of the investigative audit.

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**Memphis Police  
Department—Property  
and Evidence Division**

Our investigative audit revealed that 116.6 kilograms of cocaine with an estimated street value of \$2,332,408 and 559.8 pounds of marijuana, with a street value estimated at \$447,876, could not be accounted for. Auditors were unable to locate or account for certain cash items totaling \$147,218, and were unable to account for at least 66 firearms.

Auditors listed eight findings that were directly related to the missing inventory.

1. Lack of separation of duties
2. Capability of property clerks to alter computer property records
3. Inadequate procedures for destruction of narcotics
4. Inadequate procedures for destruction or disposal of contraband weapons
5. Confiscated drugs and weapons not disposed of timely
6. Inadequate restrictions on access to evidence and inadequate storage conditions
7. Lack of policy manual
8. Failure to report and remit unclaimed property

Five defendants who worked for the Memphis Police Department were indicted on 64 counts for various federal crimes. One defendant pled guilty to 35 counts. The other charges are pending.

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**Recent Developments Related to Prior Years' Investigative Audits**

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**Cherokee Children and  
Family Services, Inc.**

The former executive director and her husband were indicted on 29 federal counts related to embezzlement of public funds, money laundering, filing false tax returns, and mail fraud. A jury found the pair guilty of 26 counts. The three counts on which they were acquitted related to filing of false tax returns.

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**City of Lexington**

Of the 94 original counts, the city's former insurance agent pled guilty to one count of mail fraud and one count of money laundering. He was sentenced to 55 months in prison to be served in Millington; three years supervised probation, and \$731,000 restitution with the provision that 10 percent of his monthly income was to be applied to that figure.



# Appendix

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## **Recognition for Excellence In Financial Reporting**

The Certificate of Achievement for Excellence in Financial Reporting, issued by the Government Finance Officers Association, is the highest form of recognition in government financial reporting. Attaining this certificate represents a significant accomplishment. The following Tennessee governments and entities received this award for the year ended June 30, 2002, the association's most recent award year completed as of December 2004.

State of Tennessee  
Anderson County  
Blount County  
Bristol Tennessee Electric System  
City of Athens  
City of Bartlett  
City of Brentwood  
City of Chattanooga  
City of Cleveland  
City of Columbia  
City of Franklin  
City of Germantown  
City of Hendersonville  
City of Johnson City  
City of Kingsport  
City of Knoxville  
City of Lake City  
City of LaVergne  
City of Maryville  
City of Memphis  
City of Murfreesboro  
City of Oak Ridge (37 awards)  
City of Tullahoma  
City of White House  
Hamilton County  
Knox County  
Memphis-Shelby County Airport Authority  
Metropolitan Government of Nashville and Davidson County  
Metropolitan Knoxville Airport Authority  
Metropolitan Nashville Airport  
Morristown Utility Commission  
Rutherford County  
Shelby County  
Tennessee Consolidated Retirement System  
Tennessee State School Bond Authority  
Town of Collierville  
Town of Farragut  
Town of Livingston  
Town of Smyrna  
Tri-Cities Airport Commission

**Professional Recognition**

During the year ended June 30, 2004, Department of Audit staff passed certification examinations for Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), and Certified Professional Secretary (CPS).

Ron Anderson	State Audit	CFE
Doug Bodary	County Audit	CFE
Nichole Curtiss	State Audit	CFE
Tushama Harden	State Audit	CPS
Timothy Hardy	Municipal Audit	CPA
Ben Johnson	State Audit	CPA
Hellens Kruszynski	State Audit	CFE
Jeff McClanahan	State Audit	CPA
Tabitha Peden	State Audit	CFE
Valerie Petty	State Audit	CFE
Alicia Reed	State Audit	CFE
Scarlet Sneed	State Audit	CFE
Kandi Thomas	State Audit	CFE
Jennifer Whitsel	State Audit	CFE
Melissa Wilson	State Audit	CFE

**Professional Certification**

The department is proud of all its staff who have received professional certifications.

**Certified Public Accountant****Division of State Audit**

Katherine Anderson	Herb Kraycirik
Ron Anderson	Deborah Loveless
Mason Ball	Derek Martin
Catherine Balthrop	Sammie Maxwell
Elizabeth Birchett	Jeff McClanahan
Debra Bloomingburg	Martha McClune
Gerry Boaz	Jay Moeck
Melissa Boaz	Karen Phillips
Walter Bond	Steve Phillips
Charles Bridges	Robyn Probus
Edward Burr	Chuck Richardson
Mary Cole	Julie Rogers
Donna Crutcher	Brent Rumbley
Michelle Earhart	Joseph Schussler
Michael Edwards	Suzanne Smotherman
William Hancock	Scarlet Sneed
Gregg Hawkins	Chas Taplin
Arthur Hayes	Kandi Thomas
Shirley Henry	Judy Tribble
Teresa Hensley	Rebecca Troyani
Marcia Holman	Clare Tucker
Bob Hunter	Wendell Voss
Aaron Jewell	Patricia Wakefield
Donna Jewell	Dan Willis
Teresa Kennedy	Britt Wood



**Division of County Audit**

Penny Austin	Kelley McNeal
Jeff Bailey	Jan Page
Nolan Bradford	Gary Ramsey
Sharee Brewer	Steve Reeder
Brad Burke	Anita Scarlett
Bryan Burklin	Tim Stansell
Melissa Darby	David Sturtevant
Jerry Durham	Lester Tackett
Marie Elliott	Christy Tennant
Michael Ford	Mark Treece
Amy Hembree	Clifford Tucker
Kevin Huffman	Andrew Way
Michael Hulme	Kent White
Wilma Johnston	Greg Worley
Joe Kimery	

**Division of Municipal Audit**

Robert Allen	Philip Job
Rene Brison	Greg Lawrence
Rebecca McElrath	Michael Mayhan
Bill Case	Sheila Reed
Dennis Dycus	Lewis Robbins
Iris Haby	Jean Suh
Timothy Hardy	

**Certified Fraud Examiner****Division of State Audit**

Ron Anderson	Trey King
Mason Ball	Hellens Kruszynski
Lana Bland	Melissa Lahue
Melissa Boaz	Jacqueline Laws
Walter Bond	Harry Lee
Ike Boone	Derek Martin
Bridget Carver	Sophia Massey
Jennifer Cawthon	Roshena May
Tiffany Cherry	Mary McCalip
Donna Crutcher	Bob McCloud
Melinda Crutchfield	Glen McKay
Nichole Curtiss	Jay Moeck
Cindy Dunn	Tabitha Peden
Treesie Farmer	Beth Pendergrass
Jonathan Gebhart	Valerie Petty
Shanta Griffin	Steve Phillips
LaToya Hampton	Scott Price
William Hancock	Sheilah Pride
Drew Hawkins	Robyn Probus
Gregg Hawkins	Barbara Ragan
Arthur Hayes	Alicia Reed
Amanda Hoback	Brent Rumbley
Aaron Jewell	Scarlet Sneed
Donna Jewell	Chas Taplin
Temecha Jones	Kandi Thomas

Tammy Thompson  
Judy Tribble  
Rebecca Troyani  
Clare Tucker  
Inger Tyree  
Helen Vose  
Patricia Wakefield

Jennifer Whitsel  
Clementine Williams  
Melissa Wilson  
Britt Wood  
David Wright  
Sonja Yarbrough

**Division of County Audit**

Jeff Bailey  
Doug Bodary  
Sharee Brewer  
Rachelle Bunch  
Rhonda Davis  
Jerry Durham

Sherrie Gill  
Wilma Johnston  
Joe Kimery  
Steve Reeder  
David Sturtevant  
Kent White

**Division of Municipal Audit**

Robert Allen  
Rene Brison  
Dennis Dycus

Philip Job  
Michael Mayhan

---

**Certified Internal Auditor**

**Division of State Audit**

Glen McKay

**Division of County Audit**

Brad Burke

Richard Norment

---

**Certified Computing Professional**

**Division of County Audit**

Jim Arnette

---

**Certified Information Systems Auditor**

**Division of State Audit**

James Falbe  
William Hancock  
Karen Masters  
Glen McKay  
Deborah Myers  
Beth Pendergrass

Bob Rice  
Chuck Richardson  
Julie Rogers  
Brent Rumbley  
Wendell Voss  
Dan Willis

**Division of County Audit**

Jim Arnette  
Penny Austin

---

**Certified Government Financial Manager**

**Division of State Audit**

Dean Agouridis  
Katherine Anderson  
Ron Anderson  
Mason Ball  
Elizabeth Birchett  
Debra Bloomingburg  
Gerry Boaz

Charles Bridges  
Edward Burr  
Mary Cole  
Donna Crutcher  
Michael Edwards  
Arthur Hayes  
Shirley Henry

Teresa Hensley  
Marcia Holman  
Aaron Jewell  
Diana Jones  
Herb Kraycirik  
Deborah Loveless  
Derek Martin  
Sammie Maxwell  
Jennifer McClendon  
Bob McCloud  
Glen McKay  
Beth Pendergrass  
Steve Phillips

Robyn Probus  
Chuck Richardson  
Randy Salt  
Joseph Schussler  
Suzanne Smotherman  
Scarlet Sneed  
Kandi Thomas  
Clare Tucker  
Patricia Wakefield  
Lisa Williams  
Dan Willis  
Dena Winningham

**Division of County Audit**

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Jim Arnette  
Penny Austin  
Jeff Bailey  
Marvin Bond  
Nolan Bradford  
Sharee Brewer  
Bryan Burklin  
Kathi Burriss  
Kathy Clements  
Jerry Durham  
Michael Ford  
David Frakes  
Jerry Gallemore  
Eugene Hampton  
Kevin Huffman  
Michael Hulme

Wilma Johnston  
Joe Kimery  
Carl Lowe  
Kelley McNeal  
Norm Norment  
Richard Norment  
Bob Powell  
Ferman Pride  
Steve Reeder  
Keith Rice  
June Rogers  
David Sturtevant  
Lester Tackett  
Lee Ann West  
Kent White  
Horace Wiseman  
Greg Worley

**Division of Municipal Audit**

Dennis Dycus

---

**Certified Professional Secretary**

**Division of State Audit**

Tushama Harden

Paula Null

**Division of County Audit**

Sweeking Bataille  
Theresa Gervin

Karen Patterson

**Division of Municipal Audit**

Rosemary Dixon

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**State Audits Released  
During the Year Ended  
June 30, 2004**

**Financial and Compliance Audits**

**State Departments, Agencies, and Institutions**

Attorney General and Reporter  
CAFR 2003  
Clean Water State Revolving Fund  
Commission on Aging and Disabilities  
Court System  
Department of Agriculture  
Department of Children's Services  
Department of Correction  
Department of Economic and Community Development  
Department of Education  
Department of Finance and Administration Including TennCare  
Department of Health  
Department of Human Services  
Department of Labor and Workforce Development  
Department of Mental Health and Developmental Disabilities  
Department of Revenue  
Department of Safety  
Department of Tourist Development  
Department of Transportation  
Department of the Treasury  
Fiscal Review Committee  
Local Government Group Insurance Fund  
Medicare Supplement Insurance Fund  
Military Department  
Office of the Comptroller of the Treasury  
Post-Conviction Defender Commission  
Single Audit 2003  
Teacher Group Insurance Fund  
Tennessee Bureau of Investigation  
Tennessee Commission on Aging and Disability  
Tennessee Consolidated Retirement System  
Tennessee Housing Development Agency  
Tennessee Local Development Authority  
Tennessee Rehabilitative Initiative in Correction  
Tennessee Sports Hall of Fame  
Tennessee State School Bond Authority  
Tennessee State Veterans' Homes Board  
Tennessee Wildlife Resources Agency

**Universities, Colleges, and Foundations**

Austin Peay State University  
Chattanooga State Technical Community College  
Chattanooga State Technical Community College Foundation  
Cleveland State Community College  
Dyersburg State Community College  
East Tennessee State University

Jackson State Community College  
Middle Tennessee State University  
Motlow State Community College  
Southwest Tennessee Community College  
Tennessee State University  
Tennessee Technological University  
Tennessee Technological University Dormitory Corporation  
University of Memphis  
The University of Tennessee

### **Community Services Agencies**

Davidson County Metropolitan Community Services Agency  
East Tennessee Community Services Agency  
Hamilton County Community Services Agency  
Knox County Community Services Agency  
Memphis and Shelby County Community Services Agency  
Mid Cumberland Community Services Agency  
Northeast Community Services Agency  
Northwest Community Services Agency  
South Central Community Services Agency  
Southeast Community Services Agency  
Southwest Community Services Agency  
Upper Cumberland Community Services Agency

### **TennCare Audits**

Bradley-Cleveland Services  
Centerville Health Care Center  
Community Care of Rutherford County  
Lake City Health Care Center  
Life Care Center of Missionary Ridge  
Mariner Health of Norris  
McKendree Village

### **Performance Audits**

Board for Licensing Health Care Facilities  
Department of Agriculture  
Department of Children's Services  
Department of Correction  
Department of Finance and Administration, Office for Information  
Resources  
Department of Health  
Department of Labor and Workforce Development  
Department of Safety  
Department of Transportation  
Health Related Boards  
Health Services and Development Agency and the State Health  
Planning and Advisory Board  
TennCare Appeals Unit

Tennessee Board of Regents  
Tennessee Bureau of Investigation

### **Special Investigations**

Review of Issues Related to Dr. James Smith's Tenure as Athletics  
Director at Tennessee State University  
University of Tennessee: Review of Issues Related to the Presidency  
of Dr. John Shumaker

### **Waste and Abuse**

Issues Related to State Travel Agency  
Issues Related to the Shelby County Operations of the Department of  
Children's Services

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#### **County Audits Released During the Year Ended June 30, 2004**

#### **Financial and Compliance Comprehensive Annual Financial Reports For the Year Ended June 30, 2003**

##### **Counties**

Anderson	Greene	Meigs
Bedford	Grundy	Monroe
Benton	Hamblen	Montgomery
Bledsoe	Hancock	Moore
Blount	Hardeman	Morgan
Bradley	Hardin	Obion
Campbell	Hawkins	Overton
Cannon	Haywood	Perry
Carroll	Henderson	Pickett
Carter	Henry	Polk
Cheatham	Hickman	Putnam
Chester	Houston	Rhea
Claiborne	Humphreys	Roane
Clay	Jackson	Robertson
Cocke	Jefferson	Rutherford
Coffee	Johnson	Scott
Crockett	Lake	Sequatchie
Cumberland	Lauderdale	Sevier
Decatur	Lawrence	Smith
DeKalb	Lewis	Stewart
Dickson	Lincoln	Sullivan
Dyer	Loudon	Tipton
Fayette	Macon	Trousdale
Fentress	Madison	Unicoi
Franklin	Marion	Union
Gibson	Marshall	Van Buren
Giles	Maury	Warren
Grainger	McNairy	Wayne

Weakley  
White

Williamson  
Wilson

### **Special School Districts**

Paris Special School District

McKenzie Special School District

### **Information System Reviews**

Carroll	Haywood	Pickett
Carter	Hickman	Putnam
Coffee	Houston	Roane
Crockett	Jefferson	Rutherford
DeKalb	Lawrence	Sevier
Dickson	Lewis	Tipton
Dyer	Maury	Van Buren
Fayette	McKenzie Special	Warren
Fentress	School District	Wayne
Franklin	Meigs	Weakley
Giles	Morgan	White
Grainger	Paris Special	Williamson
Greene	School District	Wilson
Hancock	Perry	

### **Special Reports and Limited Reviews**

Reviews of Funds Administered by the District Attorneys General and Judicial District Drug Task Force Funds – First through the Thirty-First Judicial Districts (July 1, 2001, through June 30, 2002)

Limited Review of the Office of County Trustee, Shelby County (For the Period July 1, 2001, through January 31, 2003)

Limited Review of the Obion County Nursing Home (For the Period July 1, 2000, through March 31, 2003)

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### **Municipal Audit Investigative Audit Reports Released During the Year Ended June 30, 2004**

City of Lebanon  
Huntland School Cafeteria-Franklin County Schools  
East Tennessee Human Resource Agency  
Waynesboro Middle School Cafeteria-Wayne County Schools  
Community Services Network  
Town of Gruetli-Laager Police Department  
Caryville Elementary School-Campbell County Schools  
Griffith Creek Utility District  
City of South Fulton  
East Side Elementary School-Warren County Schools  
City of Moscow  
Town of Coopertown  
Town of Somerville

West Warren-Viola Utility District  
Pennington Elementary School-Metro Nashville Schools  
Briarwood School Cafeteria-Benton County Schools  
John Coleman School-Rutherford County Schools  
Warren County High School Cheerleaders-Warren County  
Schools  
City of Winchester  
City of Martin-The C.E. Weldon Library and The Miss Soybean  
Festival Pageant  
Bridges, USA, Incorporated  
South Pittsburg Police Department  
Cumberland Utility District  
Town of Crump  
Memphis Police Department-Property and Evidence Division  
Town of Benton, Traffic Court



**Comptroller of the Treasury  
Department of Audit  
Schedule of Revenues, Expenditures, and Reserves  
For the Years Ended June 30, 2004, and June 30, 2003**

	Year Ended June 30, 2004				Year Ended June 30, 2003			
	State Audit	County Audit	Municipal Audit	Department Total	State Audit	County Audit	Municipal Audit	Department Total
<b>RESERVES</b>	\$ -	\$ -	\$ -	\$ -	\$ 3,888.50	\$ -	\$ -	\$ 3,888.50
<b>REVENUES</b>								
Appropriation	8,734,800.00	5,912,400.00	1,264,600.00	15,911,800.00	8,502,700.00	5,696,000.00	1,283,200.00	15,481,900.00
Departmental revenues	3,923,300.83	920,180.25	260,299.47	5,103,780.55	3,661,304.70	885,660.43	170,103.05	4,717,068.18
Total revenues	12,658,100.83	6,832,580.25	1,524,899.47	21,015,580.55	12,164,004.70	6,581,660.43	1,453,303.05	20,198,968.18
Total reserves and revenues	12,658,100.83	6,832,580.25	1,524,899.47	21,015,580.55	12,167,893.20	6,581,660.43	1,453,303.05	20,202,856.68
<b>EXPENDITURES</b>								
Personal services	8,465,886.95	4,408,736.98	986,668.61	13,861,292.54	8,359,915.13	4,417,549.60	968,256.23	13,745,720.96
Employee benefits	2,372,594.44	1,239,434.37	267,012.16	3,879,040.97	2,203,135.16	1,206,604.22	244,623.88	3,654,363.26
Total payroll	10,838,481.39	5,648,171.35	1,253,680.77	17,740,333.51	10,563,050.29	5,624,153.82	1,212,880.11	17,400,084.22
Travel	522,697.07	378,623.20	61,197.68	962,517.95	529,331.48	376,910.46	57,575.14	963,817.08
Printing, duplicating, and film processing	66,601.42	105,568.54	5,418.91	177,588.87	66,483.74	94,901.45	4,752.60	168,137.79
Communication and shipping costs	15,442.82	30,659.93	5,785.59	51,888.34	16,204.03	28,883.02	5,888.32	50,975.37
Maintenance, repairs, and service	39,361.79	114.75	-	39,476.54	36,088.00	56.00	-	36,144.00
Professional and administrative services	103,343.75	53,891.97	4,406.77	161,642.49	69,827.40	37,432.90	6,159.26	113,419.56
Supplies	27,704.12	13,171.78	4,298.83	45,174.73	21,319.55	17,090.75	8,287.89	46,698.19
Rentals and insurance	485,212.88	152,429.15	66,436.00	704,078.03	396,324.80	142,860.45	65,336.00	604,521.25
Motor vehicle operations	-	-	-	-	-	5.01	-	5.01
Awards and indemnities	528.71	200.00	-	728.71	-	-	-	-
Grants and subsidies	17,436.25	2,785.99	1,787.15	22,009.39	7,906.15	3,532.95	605.35	12,044.45
Equipment	5,058.33	-	-	5,058.33	8,199.00	-	6,663.07	14,862.07
Billings and records management	33,468.54	19,869.17	5,771.40	59,109.11	34,436.27	18,219.79	6,433.04	59,091.10
Total other	1,316,855.68	757,314.48	155,102.33	2,229,272.49	1,188,122.42	719,892.78	161,700.67	2,069,715.87
Total current year	12,155,337.07	6,405,485.83	1,408,783.10	19,969,606.00	11,751,172.71	6,344,046.60	1,374,580.78	19,469,800.09
Excess of reserves and revenues over expenditures	\$ 502,763.76	\$ 427,094.42	\$ 116,116.37	\$ 1,045,974.55	\$ 416,720.49	\$ 237,613.83	\$ 78,722.27	\$ 733,056.59
Reserves carried forward for encumbrances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amount reverting	502,763.76	427,094.42	116,116.37	1,045,974.55	416,720.49	237,613.83	78,722.27	733,056.59
Total	\$ 502,763.76	\$ 427,094.42	\$ 116,116.37	\$ 1,045,974.55	\$ 416,720.49	\$ 237,613.83	\$ 78,722.27	\$ 733,056.59

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# **NSAA**

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## **National State Auditors Association**

State of Tennessee  
Comptroller of the Treasury  
Department of Audit

Quality Control Review  
For the Period July 1, 2003  
through June 30, 2004

**REPORT**

2401 Regency Road • Suite 302 • Lexington, Kentucky 40503 • (859) 276-1147



# National State Auditors Association

October 19, 2004

John G Morgan  
Comptroller of the Treasury  
Suite 1500, James K. Polk State Office Building  
505 Deaderick Street  
Nashville, TN 37243

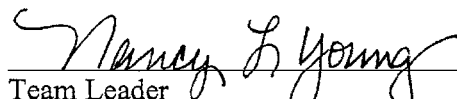
Dear Mr. Morgan:


We have reviewed the system of quality control of the State of Tennessee Comptroller of the Treasury, Department of Audit in effect for the period of July 1, 2003 through June 30, 2004. A system of quality control encompasses the department's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the department. Our responsibility is to express an opinion on the design of the system, and the department's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditor's Association (NSAA). In performing our review, we obtained an understanding of the department's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the department's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the department's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the State of Tennessee Comptroller of the Treasury, Department of Audit in effect for the period of July 1, 2003 through June 30, 2004 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

  
Team Leader  
National State Auditors Association  
External Peer Review Team

  
Concurring Reviewer  
National State Auditors Association  
External Peer Review Team

2401 Regency Road, Suite 302, Lexington, Kentucky 40503-2914, Telephone (859) 276-1147, Fax (859) 278-0507  
444 N. Capitol Street, NW, Suite 234, Washington, DC 20001, Telephone (202) 624-5451, Fax (202) 624-5473  
[www.nasact.org](http://www.nasact.org)

## Directory

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<b>Division of State Audit:</b> Director Assistant Directors: Administration, Performance, & Waste and Abuse Financial & Compliance Financial & Compliance TennCare Special Investigations & IS Audit Managers:	Arthur A. Hayes, Jr., CPA, JD, MBA, CFE, CGFM  Deborah V. Loveless, CPA, MBA, CGFM  Charles K. Bridges, CPA, CGFM Edward Burr, CPA, CGFM Gregg Hawkins, CPA, CFE Glen McKay, Ph.D., MBA, CIA, CFE, CISA, CGFM	(615) 747-5251  (615) 747-5258  (615) 401-7897 (615) 401-7897 (615) 401-7829 (615) 401-7823	(615) 532-2765  (615) 532-2765  (615) 532-2765 (615) 532-2765 (615) 741-4293 (615) 532-2765	arthur.hayes@state.tn.us  deborah.loveless@state.tn.us  charles.bridges@state.tn.us ed.burr@state.tn.us gregg.hawkins@state.tn.us glen.mckay@state.tn.us
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## ***Addresses***

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### **Division of Municipal Audit**

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### **Comptroller of the Treasury Web Site**

[www.comptroller.state.tn.us](http://www.comptroller.state.tn.us)

### **Comptroller's Fraud, Waste and Abuse Hotline**

(800) 232-5454